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**Relationships between exporters from
Pakistan and importers from the United
Kingdom: A dyadic perspective**

by

Huma Amir

A thesis submitted in fulfilment of the
requirements for the degree of
Doctor of Philosophy in Marketing

University of Warwick

Warwick Business School

2010

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LIST OF ABBREVIATIONS

IMP Group:	Industrial Marketing and Purchasing Group
IaT:	Interaction Theory
RM:	Relationship Marketing
RQ:	Relationship Quality
PRQ:	Perceived Relationship Quality
PRV:	Perceived Relationship Value
TDAP:	Trade Development Authority of Pakistan
BCC:	Birmingham Chamber of Commerce
ITC:	International Trade Centre
UN:	United Nations
OECD:	Organisation for Economic Cooperation and Development
R&D:	Research and Development
SITC:	Standard International Trade Classification
HS:	Harmonized System (of classification of trade goods)
QC:	Quality Control
WTO:	World Trade Organization
EU:	European Union
USA:	United States of America
VAT:	Value-Added Tax
GM:	Genetically Modified
SBP:	State Bank of Pakistan
ITSY:	International Trade Statistics Yearbook
EHS:	Environment, Health, and Safety

LIST OF ABBREVIATIONS - CONTD.

CMT:	Cutting, Making, and Trimming
PLGMEA:	Pakistan Leather Garment Manufacturers and Exporters Association
PTA:	Pakistan Tanners Association
EDS:	Export Development Surcharge
n.e.s.	Not Elsewhere Specified
TPI:	Threads Per Inch
GSM:	Grams per Square Metre
USP:	Unique Selling Propositions
LDC:	Least Developed Country
COO:	Country of Origin
ERP:	Enterprise Resource Planning
GoP:	Government of Pakistan
JV:	Joint Venture
ISO:	International Organization for Standardization
PDCPs:	Perceived Dynamic Competitive Prices
FDI:	Foreign Direct Investment
LA:	Latin America

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Thank you people, without you this would never have materialized.

DECLARATION

I, Huma Amir, declare that:

1. I have not used before, or have published before, any material contained in this thesis.
2. The work presented in this thesis is my own, except where stated as reference.
3. This work has not been submitted for any other degree at another university.

HUMA AMIR: _____

24 November 2010

DATE: _____

ABSTRACT

This research is in reply to requests made by academicians to conduct research on cross-border marketing channels in developing countries (cf Cunningham, 2001). With its grounding in interaction theory and relationship marketing theory, an interpretive approach is taken that looks into the relationships between importers from a developed country (UK) and exporters from a developing country (Pakistan) in a context which has not been studied before. Nine pairs of importer-exporter dyads from across three industries (bed-linen, towels, leather apparel) were interviewed iteratively. The interviews were recorded, transcribed, and analysed hermeneutically to build categories and themes of data.

The results showed that good relationships had built over the years of mutual exchange and the relationships were characterised by building of relational bonds that acted as governance structures. But the relational bonds were unique to the dyads. Exporters made process and product modification investments but importers investments were limited to time and effort in learning. Extensive learning was involved in the initial days of relationship start-up but a happy centre-point had been achieved. The IMP model was modified for the context of the research based on respondents' definitions of their perceptions of relational exchanges and their effects on the dyadic relationship. It was found that country perceptions played a very strong role in the entire interaction process. It mediated the adaptations and institutionalisation of relational bonds, carried with it a strong product quality perception, and governed the power/dependence, conflict/cooperation, closeness/distance continua.

Another phenomenon of interest was observed. Steep price pressures from the retailers due to changing market structure and increasing competition for both importers and exporters had a very strong negative influence on dyadic relationships. Importers and exporters defined it as a transient phase due to China's artificially depressed prices, and the dyads perceived that these prices were not sustainable and would eventually rise.

But in the meanwhile, it was observed that as importers moved their purchases to cheaper supply-sources, they showed high levels of relationship energy. Though interorganisational relationships may have been subdued, or even severed, interpersonal relationships were strong and strategically maintained to keep the crucial link that would allow importers to return once the unstable conditions of perceived unstable short time depressed prices had alleviated and Pakistan was once more considered an efficient source of supply. Exporters devised strategies to survive in the interim period while they waited for importers to return with renewed business. Opportunism was also observed on part of both importers and exporters since short-term gains became more attractive than long-term returns on relationship-investment. This state of heightened uncertainty and short-term perspective of the otherwise long-enduring relationships was termed a consequence of *Perceived Dynamic Competitive Prices*.

1.0 INTRODUCTION TO THESIS

1.1 INTRODUCTION – CHAPTER ONE

Trade between nations is almost as old as civilization itself but its impact on international business activities was never more pronounced than now with the advent of globalisation and the shrinking of international boundaries as trade barriers are removed and geographical distances lose their severity due to fast and convenient transportation and means of communication. Thus interest in international business is burgeoning and the last three decades have seen a plethora of research directed towards gaining a better understanding of the international relationship building processes.

Works of such prominent researchers as Bagozzi (1975) and the IMP¹ Group (Cunningham, 1980; Ford, 1980) have described business transactions as relational exchanges where outcomes are affected by the perceptions and emotions of the actors involved. This is to say that business interactions do not take place in a vacuum. When business partners interact, their interpretations of each other's actions and communications are governed by their perceptions based on their personality traits, past experiences, and learning.

Experiences and learning themselves are products of the environment and the culture one is exposed to. Thus it is possible for two people coming from different backgrounds to perceive the same event differently. When businesses transact internationally, these perceived differences are enhanced due to the influence of dissimilar cultural, economic, and other environmental factors. These perceptual

¹ IMP group: Industrial Marketing and Purchasing group

differences are also well acknowledged in literature and researchers have attempted to study the effects of social, cultural, political, and environmental differences and their perceptions on international business ventures. Research has been conducted on international channels of distributions, MNCs², IJVs³, international service providers, and importers and exporters of commodities and manufactured goods. This research contributes to the existing body of knowledge on importer-exporter business relationships by examining the perceptions of key players in importer-exporter dyads about the evolution, progression, and management of relationship marketing.

Relatively few studies exist in the importer-exporter context and from those most have concentrated on the role of exporter as the key player in international marketing relationship-building (Ryu et al., 2007; Kaleka, 2002; Haugland, 1999) with some studies examining the role of importer as an important actor in relationship building (Overby & Servais, 2005; Lye & Hamilton, 2001; Yavas et al., 1987; Ford, 1984). Even fewer studies examine the dyadic nature of international business relationships by taking into account both importers and exporters (e.g. Leonidou, 1989; Phan et al., 2005)⁴.

Due to the complexities involved in data collection of such projects (Frazier, 1999; Kim, 2000) these studies do not use matched dyadic pairs but rely on lists of importers and exporters as surrogate pairs. Researchers call for a need to study dyadic pairs in business relationships to remove discrepancies and examine differences in perceptions on either side (Stanko, et al., 2007). Ambler and Styles

² MNCs: Multinational Corporations

³ IJVs: International Joint Ventures

⁴ A review of literature on importer research between 1960 - 2010 found 19 studies out of 212 that had importer-exporter relationship as the unit of analysis (Aykol, et al., 2012)

(2000) posit that the two dyad partners and their relationships are three connected but different entities and therefore distinction should be made between them. The present project attempts to resolve this issue by taking matched dyadic pairs of importers and exporters in cross-border business relationships between a developed economy and a less developed economy to acquire a more holistic view of the relationships (e.g. Ambler & Styles, 2000; Hakansson, 1982).

1.2 OVERVIEW OF THE TOPIC

This research is an interpretive study about the relationships between importers from a developed country and exporters based in a developing country. Specifically, it investigates dyadic relationships between UK importers and Pakistani exporters with an aim to understanding (a) the perceptions of UK importers about products and exporting organizations from Pakistan in order to determine the extent of relationship-building and the factors essential for its strength or failure; and (b) the perceptions of Pakistani exporters about their own organizations and those of their UK business partners, products, and performance in order to identify converging and diverging viewpoints.

1.2.1 Why Dyads of Developed and Newly Developing Countries?

The adoption of more liberal trade policies and removal of trade barriers has resulted in liberalisation of business which gives impetus to international business activities. Cross-border trade has increased now more than ever because of the advent of globalisation and the integration of world economy into a global village. Currently, a new wave of research is directed towards looking at buyer-seller

relationships in the context of international trade (Barnes et al., 2007; Leonidou & Kaleka, 1998 to name a few). It is, however, surprising that research on the topic in a truly international context is still lagging behind. In their survey of articles written on the subject of relationship marketing in top rated journals, Samiee & Walters (2003) note that relatively few relationship marketing studies have examined the international perspective. They found that there were only 24 studies of which only eight studies dealt with relational exchange across national boundaries and could therefore be classified as truly international. What is more surprising is that an evaluation of perceptions on marketing relationship through studying matched pairs in an international context is scarce.

The word 'exchange', a precursor to all marketing activities, itself pre-conditions at least two parties who interact to bring about the exchange. This is evident from Liang & Parkhe's (1997) insistence on coupling of importer behaviour and exporter behaviour to understand the "interlocking decisions of parties to the dyad" (p. 521). In his explanation of international business as an exchange process, Toyne (1989) reinforces this point by stressing the need to recognize both sides of exchange because the process is 'relation-driven' and there may be differences in behaviour of exchange parties due to differences in perspectives. When these differences are significant, we cannot assume that decisions implemented by one party to the dyad will be readily accepted by the other (Lye & Hamilton, 2001).

Most research in international marketing is conducted on the development and perceptions of the exporter and little is known about the importer side of the relationship-building process. The little research conducted on importers shows

that academicians have used the variables derived from exporter research to measure performance and evaluation of importers as well. The assumption that both importers and exporters use the same criteria for measuring relationship strengths etc may result in faulty assumptions about their indicators and development of strategies for success.

At a time when organisations in developing countries are increasingly involved in global supply chains that transcend organisational, national and geographical boundaries (Chen & Paulraj, 2004) there is a strong need to extend the study of inter-organisational relationships in import/export performance to less known, non-western contexts for several reasons.

First, whilst inter-organisational relationships have attracted the interest of researchers and practitioners for nearly three decades, the major focus has been on relationships between partners in the same country and limited attention has been paid to inter-organisational relationships that transcend national boundaries (Skarmeas, et al., 2002). As a result, the way in which inter-organisational relational variables affect competitive advantage in an import/export setting remains largely unknown (Ulaga & Eggert, 2006). One important exception is the seminal work of the IMP Group who conducted a study of more than 800 buyers and sellers in five European countries (Håkansson, 1982). The interaction model that resulted from this research has the flexibility to represent any industrial and business buyer-seller group and has been applied successfully in many buyer-seller settings to study inter-organisational relationships. It remains to be seen how the interaction model applies to countries with diverse social, cultural, and economic backgrounds as well.

Second, firms in emerging industries frequently lack sufficient knowledge about consumers and can benefit from adopting management practices that facilitate access to practical and easy methods of information flow (Chen & Paulraj, 2004). Leonidou (2003) suggests that the essence of export business is the company's relationships with its overseas customers and export management should basically be considered as a process of relationship management. However, his work is confined to interactions between developed and developing countries of Europe and the knowledge needs to be extended to other less researched countries.

Third, most empirical work in the area has been in the US and Europe. A review of literature on export performance (see Leonidou et al., 2002) indicates limited work has been done in developing countries. Researchers have also called for the need to test marketing theory not only in emerging industries, but also in developing and under developed countries (Kim & Frazier, 1997; Peng, 2001). This point of view is also held by Cunningham (2001) who argues that there is a serious deficiency of marketing channel research within developing markets of Africa, South America, and Asia. Academicians and practitioners should be cautious while implementing the theories and strategies that work in the West on the rest of the world.

The present study, therefore, addresses the gaps identified above by focusing on how exporters from a developing country and importers from a developed country use inter-organisational relationships to manage perceived differences in international marketing. Greater understanding of importer-exporter attitudes and perceptions is important as it influences the success of both importing and exporting firms (Marshall, 1996). According to Ghauri et al. (2003) in developing

countries where institutional support is missing strong inter-organisational relationships between suppliers and buyers help abate environmental uncertainty. Thus, addressing how managers utilise networking and relational strategies (Eiriz & Wilson, 2006) to cope with perceived differences in international marketing is important for export and import marketing strategy and advancing theory in international marketing research (Chen & Paulraj, 2004).

1.2.2 Why United Kingdom and Pakistan?

Extant literature calls for a need to study development and continuance of marketing relationships in the face of diversity in cultural, social, economic, legal, political, and managerial environments. International trade between Pakistan and United Kingdom fits that criterion. UK enjoys the status of a developed welfare economy with well established stable political, legal, and economic structures in place whereas Pakistan has a long history of political instability and bouts of economic upswings and downfalls.

Comparing Hofstede's cultural dimensions (Hofstede, 2001), Pakistan is a highly collectivistic (IDV – 14) and moderately masculine (50) society with strong affinity for uncertainty avoidance (70), tolerance for unequal power distribution (55), and virtually no long-term orientation (0) whereas UK is a highly individualistic (IDV – 89) and moderately masculine (66) society that scores low on uncertainty avoidance (35) and power distance (35) and has significant long-term orientation (25).

Pakistan has been an exporter of textile, marble, leather, rice, fish, and various other agricultural and manufactured products from its inception in August 1947

and by 2008 its exports amounted to \$19,052m (FBS, 2007-2008). Yet, it has not been able to establish an image of high quality for products originating from Pakistan. The TDAP⁵ claims that this is due to the fact that majority of its exporters are weak in the marketing management abilities and the financial/human resources required for aggressive market share enhancement and product and geographical diversification. Export-oriented manufacturing firms in Pakistan are, therefore, highly dependent on their international partners for the marketing and selling of their products in foreign markets.

No substantive research has been found that can either validate or refute such claims. In fact, there is a paucity of empirical, academic, causal, or other kinds of research in most developing and less developed countries in general and specifically in Pakistan. Literature review for this research turned up only one academic paper published in *Journal of Global Marketing* on the topic of international marketing and Pakistan (Zafarullah, et al., 1998)! Findings of this one article on the internationalisation of manufacturing firms in Pakistan are contrary to established theory of unidirectional internationalisation process where internationalization occurs in stages with firms initially shying away from exports and concentrating in domestic markets then gradually moving from small export orders for psychically close countries to larger orders and larger psychic distances (Johanson & Wiedersheim-Paul, 1975; Bilkey & Tesar, 1977; Bell, 1995).

The United Kingdom is the fourth largest market for Pakistan's exports, USA, U.A.E. and Afghanistan being the first three. As opposed to Pakistan, there is a wealth of research information, made available by practitioners and academicians,

⁵ TDAP: Trade Development Authority of Pakistan, formerly Export Promotion Bureau

about UK business operations within and across the boundaries (Katsikeas & Piercy, 1990a, 1990b; Arize, 1996; Beamish et al., 1993; Crick, 1995; Gourlay & Seaton, 2004; Requena-Silvente, 2005; Sedgley & Smith, 1994, to name a few).

1.3 BACKGROUND OF THE STUDY

This section provides a brief overview of literature on relevant topics of the research, namely interaction theory, international relationship marketing, grounding in theory, and their salient features. Detailed descriptions of the theories are provided in Chapter 2.

1.3.1 Interaction Theory

The interaction theory (for convenience I will call it IaT from here onwards) was put forward by the IMP group in order to explain the intrinsic nature of cross-border trade for industrial products between businesses (Ford, 1980; Håkansson, 1982; Ford & Håkansson, 2005).

The proponents of IMP challenged the idea of transactions as discrete and emphasised the interactional nature of relational exchanges that take place in B2B commerce where markets are stable, with buyers and sellers well-aware of each other and of the market. They also challenged the emphasis researchers place on manipulation of ‘marketing mix’ elements and stressed the active role of both buyers and sellers in an industrial purchasing decision which makes it necessary to study both parties to understand transactional processes.

IaT⁶ describes the interaction process, interacting parties, interaction environment, and the atmosphere surrounding the interaction. It has led to a stream of research that examines the interplay of forces of business network cooperation (Blankenburg Holm et al., 1996; Möller & Halinen, 1999), comparisons within and between dyadic groups in a network (Iacobucci & Hopkins, 1992), company and country perceptions (Bradley, 2001), role of intermediaries in bridging the gap between firm and government (Bengtson, et al., 2009), and trust and control (Huemer, et al., 2009) among others. IaT provides a holistic picture of working relationships of firms in a network and emphasises the concept of relational exchanges where firms adapt to each others' requirements through idiosyncratic investments and relational norms are institutionalised within the firms over the period of their relationship together.

1.3.2 Relationship Marketing

Though the emergence of the term relationship marketing (RM from here onwards) in marketing literature is relatively new, relationships and personal contacts have always played an important role in business ventures and dealings. Morgan and Hunt (1994) define RM as “all marketing activities directed towards establishing, developing, and maintaining successful relational exchanges” (p. 22). Firms strategically choose to enter into relational exchanges with other firms because it enables them to compete better in the market place (Hunt, et al., 2006). By doing so they gain access to resources they do not, or cannot, possess themselves but that would provide them with competitive advantage. In the extreme form, acquisition of resources happens through internalisation as in the

⁶ IaT: Interaction theory

case of mergers and JVs⁷ whereas externalised operations are characterised by relational exchanges with firms working together to achieve mutual goals and organising systems and activities in such a way as to facilitate cooperation and coordination and to minimize conflict, opportunism, and uncertainty.

1.3.3 Salient Features

There are various similarities between IaT⁸ and RM theory. RM advocates treating each customer as an individual who is knowledgeable, and actively participates in collaborating with the firm to jointly create value, resulting in a win-win situation and thereby making long-term relationships plausible (Gummesson, 2002). RM emphasises building customer relationships that would create loyal customers who act as advocates for the suppliers (Bridgewater & Egan, 2002). IaT also establishes the roles of buyer and seller as active participants in the exchange process who strive for stability and longevity in their relationship by understanding their counterparts and, if needed, making adaptations in order to reap mutual benefits (Håkansson, 1982).

The antecedents of RM include trust, commitment, gratitude (acknowledgement of favours or benefits), and the resultant reciprocity (Beck & Palmatier, 2012). Similarly, in IaT, trust plays an important role and is seen as an outcome of the accumulation of individual exchange episodes and positive history of having expectations fulfilled over the course of the relationship. Such trust would lead to commitment to the relationship since trustworthy partners are reliable, and

⁷ JV: Joint venture

⁸ IaT: Interaction Theory

adaptations are made to ascertain longevity with the confidence that they will be safeguarded.

Taking the norm of reciprocity, we see that extant RM literature ascribes reciprocity as an antecedent of trust and commitment in iterative exchange relations. Although there is some research on reciprocity in RM (Houston & Gassenheimer, 1987; Kashlak et al., 1998; Kashlak & Sherman, 2004; Lee et al. 2008) its effect on importer-exporter relationship is not known. In a very recent study Lee et al. (2008) attempted to build a model of reciprocity based on the relative efficacy of social versus economic aspects of benevolence, commitment, satisfaction, business performance, and cultural distance. They concluded that both mutualistic and altruistic benevolence help build reciprocity in a relationship by implying an obligation on the part of the receiver (mutualistic benevolence) and creating a feeling of indebtedness which brings about a moral obligation to reciprocate when the need arises (altruistic benevolence).

In the above context, reciprocity helps bring the relationship to an equilibrium where what one gives is matched by what one gets in return (Homans, 1958). Bagozzi (1995) extends the tit-for-tat strategy concept of reciprocity and takes it into the realm of IaT by pronouncing it a relational norm which is institutionalised in the relationship when occurring frequently in various episodes, and acts as a glue to bond relationships especially during periods of instability and conflict. Bagozzi's ideas are in line with the definition given by Becker (1990) who states that people are compelled to "return good for good, in proportion to what we receive; resist evil but not do evil in return;(and) make reparation for the harm we do" (p. 4). This means that reciprocity involves a moral disposition to

do good even in the face of bad which places a moral obligation on the receiver to do good in return.

In the context of IaT, reciprocity then is the relational norm that is institutionalised⁹ through iterative relational exchanges between exchange-partners. It follows then that reciprocity may play a vital role in building or maintaining relationships when there is lack of, or breach of, trust by allowing relationships to form and continue even when feelings of distrust exist. For example, social exchange and open, upfront, and candid exchange of procedural information, or advance payments may result in timely deliveries from an unfamiliar supplier. A supplier may be bound to give preference to a buyer who had recently breached the trust because the buyer had stood by him during trying times. Showing gratitude for favours and reciprocating with like acts increases likelihood of continued exchange episodes.

By its nature, trust is an emotive concept and involves expectations of positive outcomes of actions whereas reciprocity does not warrant immediate returns but a promise of balancing out over a period of time (Homans, 1958). Over time, consistent acts of reciprocity should help build trust in the behavioural outcomes of relational exchanges. It is easy to see the consequence of reciprocity on commitment in marketing relationships where “motivations for reciprocity emphasize cooperation, collaboration, and coordination among organisations, rather than domination, power, and control as in the asymmetrical approach” (Nevin, 1995, p. 331).

⁹ Institutionalization of norms: The **relationship** context advocated in the interaction model where repeated actions become expected routine behavior and are institutionalized to the extent that they are accepted without question.

Reciprocity also has a positive effect on commitment. Commitment is an implicit or explicit pledge of relational continuity between exchange partners (Dwyer, et al., 1987). Commitment theory (Meyer & Allen, 1991) suggests that a buyer's commitment develops from three distinguishable aspects of its relationship with the seller. The *social aspect* considers the firm's desire to continue based on its perception of positive experiences with its partner over an indefinite time horizon. The *calculative aspect* concerns a firm's need to continue the existing relationship based on its pragmatic consideration of the economic benefits of remaining in the relationship compared with the costs of leaving. The *normative aspect* considers the firm's responsibility to continue based on its understanding of duty and felt obligation to reciprocate with its trading partner. Hence, like trust, commitment in a relationship may develop as an outcome of the motivations of reciprocity when reciprocity is defined in the broader concept as presented by Homans (1958).

The theories of RM and IaT differ in their grounding, methodology, and scope. RM has its grounding in buyer-seller relationships and its main focus includes not only B2B marketing but also services marketing and consumer markets whereas the concept of IaT started with a concentration on industrial business-to-business relationships and has its foundations in the interorganisational theories and the new institutional economic approach.

From the perspective of studying the ultimate consumer the RM studies tend to be quantitative in nature since the population in most cases tends to be extensive. IaT studies tend to be qualitative since in order to understand the buyer-seller relationships an in-depth analysis is required of the parties to the interaction, the processes of interaction, the atmosphere within which the interactions take place,

and the macro-environment influencing the entire process and participants. One important reason for using qualitative studies in IaT is that the interactional model places heavy emphasis on the context in which relationships are studied. A usual procedure employed in the IaT research is the use of case studies which provide in-depth insights into the development and continuance of relationships that are unique to a particular industry.

Studies of industries and exchanges within them must account for various differences relating to size, structure, technology, management, products, processes, etc. When dyadic relationships are studied these factors are doubled since both partners to the relationship bring their own set of factors which interact when relational exchanges take place. Therefore, it is important to build a reference by explaining the context in which the exchange takes place. RM, on the other hand, does not place emphasis on context and instead studies how relationships can be developed from “satisfaction-based acquaintanceships to trust-based friendships to commitment-based partnerships” (Johnson & Selnes, 2004, p. 4) resulting in customer loyalty and desire for long-term relationships.

Interest in RM has given rise to a range of topics and constructs in RM research. Some of the most prominent topics in buyer-seller research are relationship quality/customer service, trust, commitment, power, involvement, conflict, and information exchange. Academicians have looked at various aspects of the relationship including relationship quality (RQ) and its constructs (Jap et al., 1999; Lohita et al., 2005; Ulaga & Eggert, 2006) and relationship value (RV) and its constructs (Kortge & Okonkwo, 1993; Ulaga & Eggert, 2006; Wu & Cavusgil, 2006). However, there is very limited research on RQ and RV in the importer-

exporter dyad context (e.g. Samiee & Walters, 2003; Leonidou et al., 2006). A clearer understanding on the definition of these constructs in international context is necessary to understand the challenges faced by importers and exporters as they span their businesses overseas.

RQ has become a significant concept in B2C and B2B marketing because of the importance given to developing relationships with customers and businesses, but a comparison of these studies is difficult because of the confusion involved in building and operationalising the construct. Studies use the same dimensions as antecedents and consequences and, to complicate matters further, the elements of RQ and the directions of their relationships are not clear (Holmlund, 2008). This is unfortunate at a time when businesses are becoming more concerned with developing and managing lasting relationships with individual entities to build a portfolio of relationships. When the international dimension is added to that, complexities increase because of differences in cultural, social, political, and business backgrounds of the firms coming together to form the dyads. Further research on this area is therefore imperative. A dyadic study observing the views of both partners in a relationship is more useful to get a holistic picture of the concept of perceived relationship quality (PRQ).

In most studies on RM in the importer-exporter context it is assumed that the factors that result in trust, commitment, and improved RQ for exporters will be the same as those for the importers. However, as Kim's (2001) study shows, upstream actors of a channel of distribution are affected by different factors driving their relationships as compared to downstream actors. It is therefore essential that

comparative studies should be carried out that highlight these differences and the reasons behind them.

Most research by academicians is conducted on relationship development between developed nations of North America and Europe (Katsikeas & Dalgic, 1995) or between developed nations and developing countries of Eastern Europe and South America (Katsikeas & Piercy, 1990a, 1990b; Chelariu et al., 2006;). It is assumed that psychologically close countries are more similar and having business relations with them is easier because the level of uncertainty is reduced. Johanson and Wiedersheim-Paul (1975) proposed that firms first enter into neighbouring countries or countries that are perceived as similar to home country and gradually move into countries with greater psychic distances.

Perception of a country as having a small psychic distance from one's own can lead decision-makers to a number of faulty assumptions, creating an inability to learn about the country (O'Grady & Lane, 1996). It is important for academicians and practitioners to understand the level and effects of perceived psychic distance in order to overcome the perceived barriers and form mutually beneficial relationships.

Johanson and Vahlne (1977) proposed a model of internationalization of firms in which internationalisation occurs in series of steps where firms gradually increase their foreign operations and commitments as they gain experiential knowledge of foreign operations and work climates.

Environmental factors related to IaT include factors such as social, cultural, geographic, technological, and time distance. These factors tend to diminish in

severity the more interactions firms have with each other and the longer a relationship exists (Bridgewater & Egan, 2002). This is due to the fact that firms become familiar with each other through repeated exchange episodes and learn to adapt their processes and practices to the requirements of the relationship.

Making use of both the IaT and RM theory brings to fore a picture of the interaction context of dyadic firms where the quality of the relationship can be measured keeping in view the interaction process, environment, and atmosphere governing the entire network.

1.4 CONTEXT, SCOPE, DOMAIN

The research setting of this study is importer-exporter relationships in an international context. The unit of analysis is the relationship. Specifically, it examines the development and continuance of successful marketing relationships between importers from a well-developed nation and exporters from a newly developing country. The underlying principle for concentrating on successful relationships is that it highlights the specific behaviour patterns characterizing the outstanding activities that result in successful international relations and that are different from those which result in dysfunctional international activities. This is in accordance with Morgan and Hunt (1994) who emphasize the need to distinguish between productive, effective, relational exchanges from those that are unproductive and ineffective.

Pakistan is taken as the exporting country and UK as the importing country. The study has its underpinnings in the relational perspective of IaT (suggested by the IMP group, Håkansson, 1982; used in other studies e.g. Anderson & Narus, 1984,

1990; Hallén et al., 1991) and RM theory because it examines the factors associated with the actors, resources, and activities (ARAs) of participants of a relationship and the effects of their intra- and interorganisational factors on their relationships. Extant literature advises the use of multidisciplinary approaches for conceptualization and model-building because they broaden the perspective and offer a more holistic view of the research problem (Skarmeas & Katsikeas, 2001).

The study is a qualitative interpretive research conducted through iterative in-depth interviews across dyads. This methodology is used because in-depth interviews provide a multi-perspective understanding of the topic by not limiting respondents to a fixed set of answers and, therefore, have the potential to reveal multiple, and sometimes conflicting, attitudes about a given topic. In-depth interviews allow an empathic appreciation of the respondent's point of view and provide an access into the hidden perceptions of the interviewees. Additionally, the respondents of this study are either owners or directors of their businesses and therefore keenly involved in the process of relationship building. This respondent interest and emotional involvement in the relationship dictates unstructured in-depth interviews (Johnson, 2002).

1.5 AIMS AND OBJECTIVES

The primary aim of this research, then, is to gain a deeper understanding of the types of relationships formed between importers from a developed economy and exporters from a developing economy in a context that has been neglected by previous research. It contrasts the perceptions of the importer and the exporter

within the same international relationship by taking a dyadic perspective of actual matched pairs in an international business setting.

The research first studies the general pattern of relationships between the countries of choice and then narrows down on the specifics of findings to examine elements of a relationship that are considered important by the participants of the research. There could be a manifestation, or otherwise, of well-established constructs of relationship-building such as interdependence, trust, commitment, satisfaction, conflict, power relations, long-term orientation, benevolence, and reciprocity. Or the study could reveal new elements that are unique to the context and participants of the research. The study then digs deeper to understand the differences in perceptions of importers and exporters regarding the relative importance assigned to these constructs.

The objectives of the research are to find out the process of international business from its inception to its successful development and the characteristics that contribute to its development and that are unique to the dyads under study. The investigation will contribute to the existing body of literature on business relationships between developed and less developed nations and provide insights into dealing with cultural, social, economic, and managerial diversities unique to each nation so that maximum competitive advantage may be attained through relationships. It will also provide a framework for researchers who wish to investigate the antecedents and consequences of successful long-term business relations in settings that are different from those that have so far been the area of research.

Put specifically, the objectives of the research are to answer the following inquires:

1. How do the importers and exporters engaged in trade in an international setting construct the reality of their relationships; that is, what are the perceptions of ‘truth’ about relationships by importers from a developed country and exporters from a newly developing country, specifically from UK and Pakistan respectively?
2. What are the consequences of their perceptions on their behaviour and their trade relationships?

1.6 RESEARCH QUESTIONS

With the objectives of the research in view and the identified gaps associated with existing literature on international relationships, the research attempts to frame research questions broad enough to support a qualitative interpretive study based on in-depth interviews. These questions are set out to give directions to research but do not specify actual constructs evident in literature (e.g. trust, power /dependence etc) and are drawn fairly widely so that the study can focus on areas developing useful information with the aim of reframing the research agenda. In this way, no predetermined constructs or elements are to be set in the beginning but the aim is to keep an open mind and look for them in the collected data. In the context of IaT and RM the research aims to look at the interplay of ARAs¹⁰ in their specific context (intra- and inter-organisational contexts) and their effects.

Specifically, the questions are:

¹⁰ ARA: actors, resources, and activities

1. How did interactions/relationships initialise between the buyers and sellers, and how did business relations develop over time?
2. How do firms in the dyad decide to form a business relationship with one organization over another? In other words, how do firms make a choice from among the various available organizations?
3. Why do firms continue to stay in a particular relationship?
4. What are the factors that facilitate organizational relationships between the dyad?
5. What are the factors that inhibit organizational relationships?
6. How do firms in the dyad perceive their relationships with their business partners and their business practices and products?

The process of internationalisation has been an area of interest for researchers where studies have shown that industries increase their foreign operations in various ways: from incremental accession into foreign markets (Johanson and Vahlne, 1977) to reactions to the pull forces of demand and supply (Etemad, 2004). The first question of the research proposes to look at the process followed by UK-Pakistan importers and exporters in their path to internationalisation.

The IaT and RM theory describe factors that are relevant to gain an understanding of relationships in the B-to-B context. Research questions two through six attempt to capture aspects of an importer-exporter relationship that result in its success. Question two looks at the selection process and factors that importers/exporters consider in making their selection of supplier/buyer such as the product and processes, conducive environmental factors, or relationship building factors (The IaT and RM factors). Question three will try to uncover what form of these factors

result in the continuance of a relationship while questions four and five will attempt to uncover the formula for successful interactions. Question six will attempt to evaluate how dyadic partners view their relationship.

1.7 ORGANISATION OF THESIS

The thesis is organised as follows. Chapter two starts with an explanation of the conceptual underpinnings of the research and explains its grounding in IMP's IaT model and RM model, then goes on to give a background of literature on importer-exporter and B2B relationships. Chapter three explains the qualitative, interpretive inquiry and its relevance to the research questions then explains explicitly the context of the research setting and the methodology followed in this research.

Chapter four starts with an overview of relationships between the nine importer-exporter dyads and gives a brief account of their histories. It then explains the context of the research setting as provided by the respondents and factors in the environment that respondents perceive as having an effect on their relationships.

Chapter five gives an analysis of the data and examines the findings in light of the IaT. The IMP model is modified based on perceptions of respondents about their relationships and the dominant role of product quality perceptions that are projected to build perceptions about the country. The model also incorporates the unique phenomenon of dynamic price wars that are the result of pressures by the retailers to produce at lower price points and are set to challenge the well-established pattern and structure of relational exchanges of the dyads.

Chapter six looks into the relational aspects of the importer-exporter relationships and studies the effect of perceived short-term dynamic competitive prices as possible initiators of short-term opportunism in the dyad. Chapter seven embeds the findings of the research in literature and chapter eight outlines the theoretical and managerial contributions of the findings, limitations of the research, and directions for future investigations.

1.8 CONCLUSION TO CHAPTER ONE

Chapter one outlined a brief introduction about the topic of this research, its aims and objectives, and the research questions to be answered. The literature review presented in Chapter Two starts with an explanation of the grounding of this research in interaction theory and relationship marketing theory then focuses on literature on importer-exporter research, influential factors of interaction theory, and some aspects of relationship quality that shape international relationships.

2.0 CONCEPTUAL UNDERPINNINGS AND LITERATURE REVIEW

2.1 INTRODUCTION – CHAPTER TWO

Chapter one gave a review of the research and the organisation of the rest of the study. This chapter first defines the conceptual groundings of the research in interaction theory and relationship marketing theory then provides an overview of literature on RM, importer-exporter relationships, and the important concepts of interaction and relational exchange that have emerged as determinants of relationship quality (RQ).

Review of literature showed that research on cross-cultural business relationships is insufficient to answer the research question of the types of relationships that exist between uniquely diverse countries like Pakistan and UK, especially where dyadic pairs of importers and exporters are concerned. Styles et al. (2008) emphasise the need for research on export performance between East-West cultures.

Although research on inter-organisational relationships has gained momentum for the past three decades, most of it concentrates on same-country relationships (cf Kalwani & Narayandas, 1995; Lusch & Brown, 1996; Corsten & Kumar, 2005). Some research exists on cross-border exchange-relationships (Katsikeas & Piercy, 1990a; Beamish et al. 1993; Aulakh et al., 1996) but there is an insignificant number of articles on non-western settings. This leaves a big gap in our understanding of relational exchanges and researchers have called for the need to fill this gap by examining diverse contexts (Kim & Frazier, 1997; Peng, 2001) and

building a better understanding of how exchange-relationships can be successful in spite of the wide variety of cultures (Matanda & Freeman, 2009). The alien nature of the context of exchange between UK and Pakistan because of no prior research resulted in the selection of an exploratory investigation through interpretive qualitative methods to understand the basic concepts on which later research can be built. The aim of this research then is to offer a theory that will guide researchers to better understand cross-cultural B2B marketing in culturally more diverse dyadic contexts.

The chapter starts with an evaluation and understanding of IaT and RM theory to build the conceptual grounding on which this research is based. Many scholars advise the use of alternative theories taken together to get a better understanding of the concepts under study (Skarmeas & Katsikeas, 2001). The use of two or more theories broadens the scope of the findings to encompass a bigger and clearer picture of a situation in its context. The chapter then goes on to discuss some research on RM and importer-exporter relationships and highlights the important concepts that have been used thus far as antecedents and consequences of relationship quality in literature.

The literature review is an overview and does not lead to formation of propositions and hypotheses but serves as an important background for the research. The aim of the literature review is to show the researcher's preconceptions, or pre-understanding of international business relationships, a prerequisite of interpretive research for establishing the context. The literature review provides the framework against which findings of the study can be compared but does not set out specific constructs and factors for testing. It also provides the

theoretical background for the issue under study (Eisenhardt, 1989; Walsham, 1995).

2.2 CONCEPTUAL UNDERPINNINGS – INTERACTION THEORY

This research has its groundings in the IaT proposed by the IMP Group. IaT was the outcome of collaboration of scholars from five European countries who formed the IMP Group in 1976 to study interactions in industrial marketing context with the view that interactions were not discrete but *relational* (c.f. Dwyer et al., 1987), and marked by a *stable* market environment where buyers and sellers knew each other well and were well informed of market developments. It also emphasised the role of *interaction* versus passive buying and therefore underscored the manipulative power of the marketing mix elements in industrial markets, while at the same time stressing the *active roles* played by both the buyers and sellers in order to seek each other out, adapt their offerings to each other's specifications, and try to control the transaction process, thereby reducing uncertainties.

The interaction model borrows from Inter-Organisational Theory and the New Institutionalists Approach within micro-economic theory (Williamson, 1975). Based on the second range of studies in inter-organisational theories – i.e. studies of many organizations – the IMP Group also made important contributions to the Network Theory. The network theory examines the many relationships an organization has with various actors in its web of relationships. Studies on networks posit that organizations may choose to work together in a collective

network to acquire value-addition in the product/service offered to the consumer (Johnston & Lawrence, 1988). Firms acquire competitive advantage by forming networks with other organizations to take advantage of resources they do not possess themselves (Hunt, et al., 2006). Firms are seen as “... constellations of businesses that organize through the establishment of social, rather than legally binding, contracts...” (Barringer & Harrison, 2000). Network studies also show customers as role players, as against passive recipients, in the value-creation process. A firm is taken as a focal point and its various relationships with other actors are studied to examine organization characteristics within networks, and links between the actors such as interdependencies, degree of formalization, control mechanisms etc.

A comparison made by Bridgewater and Egan (2002) between interaction and network theories is that while both share a win-win perspective (Gummesson, 2002), and tend to describe, rather than prescribe, buyer-seller relationships that are evolving and dynamic in nature, they take a somewhat different view of the relationships and the boundaries between the ARA¹¹. Networks, as the name implies, study a multitude of relationships that form part of a network involved in interrelated activities. Thus a holistic picture of the various activities, processes, and actors is studied to describe the links between them. The boundaries in such studies tend to get fuzzy because connections continue onwards and may have a bearing on the phenomenon of interest. For example, a firm’s stakeholders will have their own stakeholders who will have their own set of stakeholders and so forth.

¹¹ ARA: Actors, resources, and activities.

In interaction studies, a single dyadic¹² relationship is examined within the context of the internal environment, or atmosphere, and the external, or mega (Gummesson, 2002), environment. Both find long-term orientation as desirable but whereas interaction studies are positively inclined towards longevity, networks perform better with flexibility because of the sheer number of relationships involved and their varying degrees of relationship indicators.

The IMP's adoption of network theory considers markets as networks where a dyadic relationship is studied in the context of various relationships surrounding the focal relationship and the effects of these other relationships on the focal relationship [as an example see the cases – a saw equipment producer and a sawmill, and Danprint and a foreign paper maker – in Anderson, Håkansson, & Johanson, (1994)].

Single firms have also been taken as the focal point and their relationships with various actors, activities, and processes in the network have been examined. For example, Tunisini and Bocconcelli (2009) carried out a longitudinal case study involving four cases of individual firms as the focal point to examine SME company-supplier relationships in situations where SMEs grew from small to medium-sized companies through acquiring global suppliers. Study showed that earlier relationships with local suppliers helped shape relationships with foreign suppliers in SME's internationalization process.

According to the network theory, business relationships exist not only among members of two organisations but among a number of interdependent, interactive

¹² Two firms working together form a dyad. In B2B studies a dyad includes the two firms and their relationship with each other (Bonoma, et al., 1978)

businesses that form strong, stable networks (Håkansson, 1982; Blankenburg Holm et al., 1996). Gummesson (2002) terms a focal organization within its web of relationships as an *inclusive organisation* which “... embraces customers and others in a network and (its) key strategies are outsourcing and alliances” (p. 44). Ford and Håkansson, (2005), two strong proponents of the IMP Group, state that “Relationships are a powerful multiplier of the respective internal resources of the participants. Together, the internal resources and relationships of different actors create their capabilities, their interdependencies, and their capacities to influence each other” (p. 15). Mouzas and Ford (2009) define “the constitution of networks as a system of values, norms, rules and other conventions that are shared by actors in business networks”. This study aims at studying the dyadic relationship between exporters and importers and though some reference is made of the networks surrounding the actors, it is implicit in the study, and not the focus of the study. Thus the IMP interaction model remains the prime focus of the study.

IMP Interaction Model and the Network Model have been developed primarily by European scholars. Because they consider the temporal dimension of relationship formation, maintenance and dissolution, most studies are longitudinal in design and are based on either the dyad, the network, or the relationship as the unit of analysis and are qualitative in nature (c.f. Håkansson, 1982; Ford, 1984).

This research project, though not longitudinal because of the time limitations imposed by the PhD programme, is qualitative and is based on analysis of in-depth interviews that were iterative in nature and set six to nine months apart. Points of departure are that it is not a case study but instead offers interpretive analysis of data to develop a picture of the relationships between dyadic pairs of

importers and exporters. This is another difference where importers do not form the kind of structured relationships that industrial buying and selling involves since they are not part of the production-chain but nevertheless form part of the supply-chain as intermediaries in the process. However, Leonidou et al. (2006) place importer-exporter research well into the IMP literature, stating that the premise for it is that exporting goes beyond the exchange of goods for money or barter “to include complex behavioural interactions involving exchanging of social, information, and other intangibles” (p. 577).

This research uses a dyadic perspective similar to the IMP project but whereas the IMP project did not attempt to search for actual partners in an exchange-relationship, this study is based on interviews with exporters and importers who are in an actual interaction relationship with each other. To select a reasonably representative sample of various buyer-supplier technologies the IMP project formulated a product/production technology choice matrix for selection of buyers and supplier dyads and selected firms from the five countries in such a way that they had “similar, although not identical, relationships...” from the point of view of both buyers and suppliers. Thus for example, based on the criteria set out for selection a buyer from Sweden would be selected and asked to describe his relationship with one of the most important supplier. In the same manner, a supplier from Sweden would be asked about a significant relationship with a buyer in Sweden.

Buyer selection criteria were based on three types of buyer production technologies in the product/production technology matrix, namely: unit and small volume production, batch and mass production, and process manufacture. All

selected buyers in the project were manufacturers and the product exchanged was either used by them for further production or resale. Based on the choice of product technology, the suppliers selected were suppliers of: raw and processed materials, components and parts, and production equipment. The dyadic relationships selected were those that were considered important by the manufacturers.

TABLE 2-1: CRITERIA MATRIX FOR SELECTING MANUFACTURERS' IMPORTANT RELATIONSHIPS (HÅKANSSON, 1982)

		Types of Buyers		
		Manufacturers	Distributors	Institutions
Characteristics of Relationships	Anonymous			
	Individually important	X		

This research selected suppliers from Pakistan who are manufacturers involved in exporting their products to the UK. The buyers are all importers who buy the products from these exporters for large retailers and high street stores in the UK.

The IMP project used a semi-structured questionnaire whereas this research was based on unstructured exploratory interviews. The model that is built as a result of this research is based on respondents' replies, and not driven from theory.

Following sub-sections give an explanation of the theory and present its relevance to the research topic.

2.2.1 IMP Interaction Model

IMP interaction model sees both actors to the interaction as active participants and favours long-lasting (Ganesan, 1994) and durable relationships where interdependence (Rodríguez & Wilson, 2002) is seen as a way to optimise

efficiency and resources are committed in the relationship for mutual benefits (Ford & Håkansson, 2005). This is not to say that all interactions result in long-lasting interdependent relationships. At one extreme, interactions may be a one-off exchange where participants have no vested commitments and may not wish to continue the relationship beyond the transaction, while at the other end are strong relationships characterized by mutual sharing of knowledge and various other resources, mutual strategic planning, and strong commitments binding partners into long-term and mutually beneficial relationships. Many relationships exist at varying levels of interdependence, relationship strength, and commitment on the continuum between these extremes.

IaT considers long-term view of relational exchange as important for value-addition for parties in the relational exchanges (Bridgewater & Egan, 2002). With an outlook towards longevity, firms are willing to dedicate, time, capital, and human resources to the relationship, thereby increasing commitment.

Firms involved in an interaction may become dependent on each other to provide them with resources necessary for their successful operations (Cunningham, 1980). This is because they do not necessarily possess, nor need to possess, all the resources necessary for successful manufacturing and selling of goods and services. Firms embrace their mutual interdependence in order to achieve operational efficiency and benefit from specialised expertise of the partner firms.

Although IaT falls in the domain of industrial buying and selling, it can be, and has been, successfully applied to research on importer-exporter dyads, especially where exporters are themselves manufacturers of final products, as is the case in

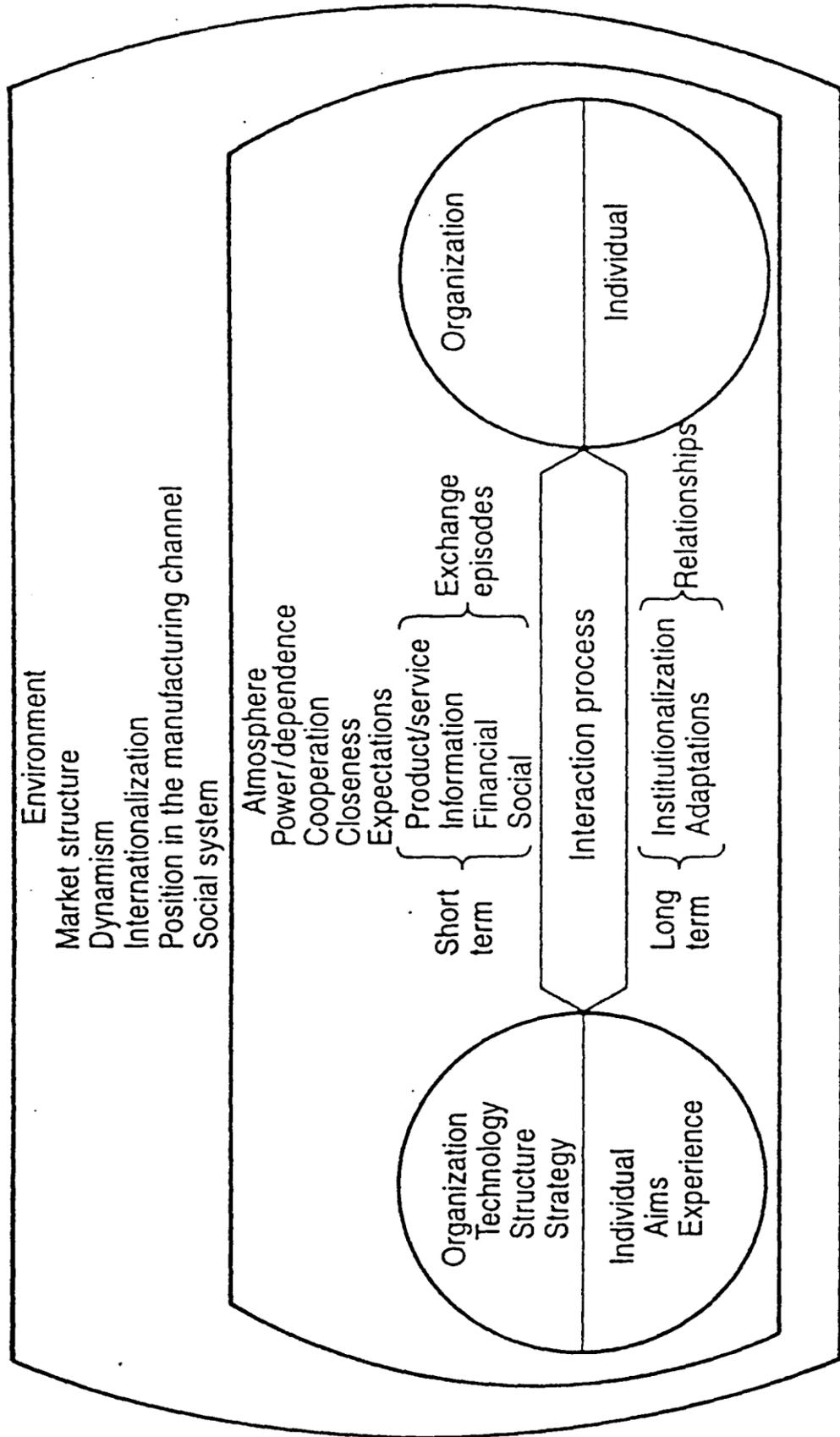
this research. For example, it can be expected that both importers and exporters would actively seek each other out in order to search for markets – in the case of exporters – and to look for efficient sources of supplies – in the case of importers.

Since they are both part of a supply-chain which carries the final product to the retailer for sale to the ultimate consumer, the importers and exporters are interdependent on each other for their performance. The importer's offering to the retailer is as good as the production and delivery competency of the manufacturing-exporter while the manufacturing-exporter's marketing and distribution skills are dependent on the importer's aggressive efforts. IaT emphasizes relationships rather than individual firms or processes and discusses four basic elements of interaction: (1) the interaction process; (2) the participants of the interaction process; (3) the environment encompassing the interaction; and (4) the atmosphere which is affecting, and is in turn affected by, the interaction (Håkansson, 1982). These elements and their subdivisions are explained below.

2.2.1.1 THE INTERACTION PROCESS

The interaction process involves exchange of *products or services, information, money, and social exchange*. In the context of relationships, there is an element of uncertainty regarding, for example, timely delivery of goods according to the specified quality, communication of relevant and timely information for mutual benefits, and stability of exchange rates. Social exchange helps to abate such uncertainties and acts as a relational governance mechanism (Heide & John, 1992) where interactions with the exchange partners over time build mutual trust through positive past experiences. Over time, relationships develop to such an extent that specific role patterns become routinised or *institutionalised*

FIGURE 2-1: INTERACTION MODEL (HÅKANSSON, 1982, P. 24)



(Håkansson, 1982) and relational norms develop (MacNeil, 1980; Poppo & Zenger, 2002; Pervan et al., 2009), i.e. expectations of behaviour are formed on the basis of past experiences and continuity of interactions.

According to IMP literature, a marked feature of relationships between industrial buyers and sellers is the need for adaptation (Mukherji & Francis, 2008) of product or processes in order to align activities of the two exchange partners (Hallén, et al., 1991). In the context of this research, it needs to be observed how exchange partners in the dyad deal with uncertainty and what kind of relational norms and adaptations, if any, are made by the importers and their exchange partners in their long-term relationships.

2.2.1.2 INTERACTION PARTICIPANTS

The second element of interaction, the participants of the interaction process, looks at the characteristics of the organisations and the individuals within the organisations that take part in the interaction. In this regard, the *technology* levels of the organisations, *company size, structure and strategy*, and *organisational experience* are taken as the elements of the organisations that determine the kind of relationship between the firms whereas the *human component* involves the skills, personalities, and experience of the individuals representing the organisations.

Technology is of greater importance in an industrial buyer-seller context where each firm must produce a product. The supplier's outcome usually becomes part of the manufacturer's product, for example raw material or components, and a match in technology of a specific level is required whereas an importer would sell

the final product delivered by the manufacturing-exporter forward with some further value-addition to it. In the case of the exporter-importer dyad, the two exchange parties search for a match between the exporter's production technology and the importer's customers' need requirements. The demand for the goods purchased by the importer from the exporter is a derived demand, driving both the retailer's, as well as the importer's, business and ultimately the exporter's business. As an example, if the market (ultimate consumer) demands a particular type of bed sheet design, the retailer would place an order with the importer to get it manufactured from the supplier and deliver it to the retailer for sale to the final consumer.

This particular match in technology can be viewed as the overall purpose of forming the relationship in the first place. As an example, if Egyptian cotton is demanded for home textiles, then importers would search for international suppliers who possess the technology of producing it. Similarly, suppliers could be categorized by country based on prevalent supplier technology and expertise: for example printed bed sheets from Pakistan and machine embroidered ones from China, or terry towels from Bangladesh and luxury bath towels from Turkey. Technology's role in this context is to differentiate the variety of products that can be achieved through the use of various technologies and to match those varieties with the consumers' and, therefore, retailer's demands (Story, 2005).

Firms also look for synergy in other aspects of technology in their relational exchanges. Communication technology, logistics, warehousing, sophistication of production technology, information maintenance and process database systems such as ERP systems are some of the technologies that firms looking for global

relationships may consider important in an international partner in order to improve their competitive advantage, i.e. firms that possess expert technology in one area but are lacking in some specific technology may specifically seek out those that possess them in order to gain mutual benefits.

Where size is concerned (Calof, 1994), manufacturing concerns tend to be substantially larger than the importer's firms, but size can be viewed in terms of breadth of distribution network of the importer and the size of importer's buyers. The customers of the importers, in the context of this research, are substantially large retail buyers who buy vast quantities from a number of suppliers and through a wide international spread. As regards strategy, it is expected that the sample importers and manufacturing-exporters would get involved in mutual strategic planning and there will be congruency of goals in order to improve market penetration and increase market share. It remains to be seen whether these mutual benefits sought and to what extent.

The third component of participants, experience of the company, comes from the accumulated knowledge of dealing with the same company as well as other exchange partners over time. Experience relates to both the individuals' experiences as well as the accumulated experience of the company as a whole over time. The sample of dyads selected for this research consists of relationships spanning between five and twenty five years because the purpose is to study long-term interactions in order to identify the variables necessary for successful on-going relationships.

The last component of the participants of the interaction process, the individuals in the firms, would bring in their behavioural traits (Leonidou, 1989) that influence how communication and social interactions are carried on and what form the relationship will take. The diversity of the cultures (Ha, et al., 2004) studied in this research would be an interesting insight into the type of relationship development and its unique features.

2.2.1.3 ENVIRONMENT AROUND INTERACTION

Environment of the interaction is the third element of IaT and considers the *market structure*, i.e. global span of interaction, concentration of buyers and sellers, currency fluctuations etc; degree of *dynamism* within exchange partners and of other buyers and sellers outside of the relationship; degree of *internationalization* of the firms; the *relationship's position in the manufacturing channel*; and the *social system* surrounding the relationship.

In terms of market structure (Schumacher, 1991), the larger the number of buyers/sellers, the greater are the alternatives available and lesser is the degree of dependence on select exchange partners, and, therefore, greater is the need to build strong relationships by the exchange partner of the large pool.

In terms of dynamism, dynamic market structures increase competition and the need to be proactive. IaT proposes that the positive effect of close interaction is that exchange partners would inform each other of the rapid changes in their other suppliers'/importers' structures, systems, products etc while the negative consequence is that the opportunity cost of remaining steadfast with an exchange partner could be substantial if cost advantages due to efficiencies and effective

methods are offered by others in the market. For this research, the secret to long-term relationships could lie in the limited availability of supply sources or in the strong relational bonds that may exist between exchange partners. Though the number of suppliers is not limited in the industries chosen for this research, it remains to be seen as to what is the state of dynamism in the industries and what kind of relational bonds, if any, have been formed that have strengthened the relationships.

Degree of internationalisation (Sullivan, 1994), the third component of interaction environment, addresses the opportunity for international markets offered by the relationship and the need to adapt, as in the case of opening subsidiaries in international locations etc. The fourth component, position in the channel, identifies the degree of influence of other firms in the channel and, therefore, the status of power in the channel (Skarmeas & Katsikeas, 2001).

Finally, the relationships are surrounded by the social system which has been shown to have an influence on firms' own norms, activities, relations, and culture. The effect of social system is more pronounced in international settings where there may be differences in ways of doing things or government regulations may differ etc. This research sheds light on the relative status of firms in the supply-chain and although it only studies the dyadic relationships between importers and manufacturing-exporters, useful insights are gained about the influence of other actors in the network through respondents' opinions and perceptions.

2.2.1.4 ATMOSPHERE

The fourth element of the interaction model, as proposed by Håkansson (1982) and the IMP Group, is atmosphere, which is said to have an effect on, and be affected by, the interaction. Therefore, the atmosphere is set by the interaction process, its participants, and the environment within which interaction takes place. Assuming a dynamic environment, the participants find stability in their long-term orientation to relationship and the efforts geared towards it through internalisation of norms and routinization of expected outcomes and behaviour. An influential aspect of the atmosphere is the role of *power* and the *dependence* of one participant over another.

The two other aspects of atmosphere are the *cooperation-conflict* and *closeness-distance* continuums. Within the realm of social exchange theory, Emerson (1962; 1964) and Blau (1964) examined the role of power and its relationship to dependence, where Emerson (1964) found that power of A over B was equal to, and based upon, the dependence of B over A and A's power over B was equal to the amount of resistance in B that could be overcome by A. It was, thus, proposed that power was a relative term perceived to be present because of the level of dependence, and control over resistance, of one party or group over another.

This rule can be successfully applied to the logic of interaction model where atmosphere is governed by the relative power of one participant over another and there is resultant dependence of the participant with lesser power on the participant with relative more power (Håkansson, 1982). Significance of power in business relationships is well-acknowledged in channel research (Gaski, 1984).

Conflict is said to exist when the actual response is not compatible with the expected response or when a channel member perceives the actions of another channel member as preventing him from achieving his goal (perceived goal impediment; Gaski, 1984).

Conflict in marketing channels can arise due to many reasons which could be product-related, process-related, person-related, or goal-related. The incongruity of goals of the participants, i.e. conflicting goals, vague communication and differing perceptions, or disagreements between participants on such matters as quality requirements, credit facilities, delivery options and timings, specific production processes, pricing, and, in the case of importers-exporters, breadth and reliability of representation (Leonidou et al., 2006) result in conflict between the participants.

With regards to the third dimension of distance-closeness, distance can be the result of perceived differences in language, legal structures, business practices etc (Johanson & Vahlne, 1977) or it can be the perceived differences in personal traits, behaviour, attitudes, norms, beliefs, values, and work habits etc (Cunningham, 1980; Ford, 1984).

For this research a study of perceived differences and similarities about the chosen sample of exchange relationships and an understanding of the norms and governance structures that have developed within the relationship are important topics of investigation. It needs to be seen whether firms in the dyad feel psychically distant and what are its effects on the relationship. Thus, a closer look

at the atmosphere within which dyads operate will set the tone for relationship development and relationship success.

2.2.2 Stage Theory of Internationalisation

Before closing this section on the IMP model, it is worthwhile to mention the internationalisation process outlined by the Uppsala School and that has come to be called the Stage Theory of Internationalisation. The model is based on the fact that firms initially lack knowledge about ‘psychically distant’ foreign countries and, therefore, in order to avoid the risk involved with the uncertainty attached to distant markets they prefer to enter markets that are perceived as similar or closer to home country (Johanson & Wiedersheim-Paul, 1975). As experiential knowledge begins to build up with foreign ventures, firms gradually move to less psychically close countries. The process is slow and gradual based on the capacity of learning of the firms (Johanson & Vahlne, 1977).

Johanson and Wiedersheim-Paul (1975) also describe a series of steps through which a firm gradually internationalises which are characterised by the firm’s involvement in the foreign market. These steps, or ‘*establishment chain*’ are: “(1) no regular export activity; (2) export *via* independent representatives (agent); (3) sales subsidiary; and (4) production/manufacturing” (p. 307). As the firm moves through these stages its level of commitment to the market increases as does the flow of information, resulting in increases in experiential learning. Although this model has met with some criticism, it has been adapted, modified, and used as foundation to understand the internationalisation processes of different types of

firms, for example SMEs¹³ (Knudsen & Servais, 2007), MNCs¹⁴ (Araujo & Rezende, 2004), and exporting firms from LDCs¹⁵ (Wortzel & Wortzel, 1981).

2.2.3 Summary and Model Adaptation

The section above gave an explanation of the grounding of this research in IaT proposed by the IMP Group with adaptations to the methodology. For instance, whereas the IMP project used unmatched pairs to examine relationships based on a set of criteria of product and production technologies (explained earlier) that resulted in dyads that were similar to the actual ones, this research examines actual dyads because importers' and manufacturing-exporters' functions are very different from each other. Whereas one is involved in the procuring of raw materials and components and the manufacturing of products, the other is responsible for marketing the product and developing a match between the offering and the customers' requirements.

The differences in functions would result in differences in procedural requirements and demands from the relationship and therefore the relationship needs to be studied in whole in order to get a holistic view of the participants' perceptions. Additionally, study of actual dyads who are involved in exchange results in a better understanding of the similarities or differences in their views regarding perceptions about the relationship.

The methodology of this research is also adapted to match the requirements of the investigation and involves unstructured interviews where consistency in replies is

¹³ SME: Small and Medium-Sized Enterprise

¹⁴ MNC: Multi-National Corporation

¹⁵ LDC: Least-Developed Country

acquired through iterative interviews that tend to saturate response categories. In the IMP project semi-structured questionnaires were used to achieve this consistency. Interpretive research is used here because of the perceived 'psychic distance' between the two chosen countries and also because of lack of knowledge and research about the context of the relationships. An exploratory design is employed where unstructured interviews allow respondents to discuss areas of interest to them so that a picture of the relationships would emerge and then the data is allowed to speak for itself.

Another point of departure is the analysis of data. Whereas IMP Group used case studies in their research, this study employs interpretive analysis techniques that are more consistent with hermeneutic philosophy (Gadamer, 1976; Ricoeur, 1981). The IMP project used a more positivistic approach due to the inclusion of part-structured questionnaires whereas this study does not employ the use of a questionnaire but instead allows data to develop in the course of discussions during the interviews.

IMP study looked for specific elements of relationship, i.e. elements identified by them in the interaction process, interaction parties, atmosphere, and environment whereas this study did not put any such pre-conditions on enquiry. Instead, it followed Andrade's (2009) reasoning: "literature review should not make the researchers simply impose previous theories when analysing the data instead of generating original categories; it..... helps them to produce a preliminary theoretical framework that should be regarded as a "*sensitizing device*" only which could be modified according to the actual findings that might result in a serendipitous discovery" (p. 46).

Analysis of data was conducted post-interviews in the IMP project whereas hermeneutic analysis dictates analysis after each round of data collection. Thus analysis was done after each interview was conducted and transcribed to interpret the emerging picture, compare across dyadic relationships, and raise topics for further interviews. Additionally instead of analysing each dyad separately, as was done by the IMP Group, this study combines the findings to give an overall view of the quality of relationships that exist between the UK importers and the Pakistani exporters.

In the IMP project “the interview schedules were carefully structured to follow a predetermined sequence of topics” (Håkansson, 1982, p. 37) whereas this study allows topics to emerge without having a planned set of questions. The interviews lead to interpretation and categorization, then an evaluation is made, based on the emerging picture, and compared with the researcher’s knowledge which is an outcome of the understanding of literature and environment achieved through researcher’s own experience and extensive secondary research (Eisenhardt, 1989; Walsham, 1995).

In the IMP project the data was gathered by interviewing a key informant in each selected firm and then identifying through him/her other key informants in management and operations who were also interviewed. This study contacted only one key informant per company who was interviewed several times over the period of the fieldwork to develop a holistic picture of the relationship. This was because of the nature of the sample firms where it was observed that only one person, usually the owner of the firm, dealt with most of the contact related matters.

The next section gives an overview of literature on relationship marketing and importer-exporter relationships and identifies the attributes that have been the focus of study in prior research and that are related to the quality of a business relationship.

2.3 CONCEPTUAL UNDERPINNINGS – RELATIONSHIP MARKETING THEORY

Relationship marketing (RM) theory has slowly emerged as a dominant paradigm in its own right in the fields of B2B marketing (Watkins & Hill, 2009), supply-chain and distribution channels (Nevin, 1995; Weitz & Jap, 1995), international marketing (Samiee & Walters, 2003), services marketing (Berry, 1995), and consumer marketing (Narver & Slater, 1990; Lukas & Ferrel, 2000).

Like anthropology and economics, the concept of exchange in marketing has existed for a long time (c.f. Kotler & Levy, 1969; Kotler, 1972; Bagozzi, 1975 and 1995). In his paper “Marketing as exchange” Bagozzi (1975) breaks down exchange into utilitarian, symbolic, and mixed exchanges and defines social marketing as including both generalized and complex exchanges as well as symbolic exchanges that “reinforce the overt transfers” (p. 39).

Dwyer *et al.* (1987) took the work of Bagozzi (1975) further and differentiated between transactional exchange and relational exchange. *Transactional exchange* was described as a short-term event with low switching costs in which buyer and seller share little information beyond price and may be motivated by conflicting goals. Switching costs were low in such exchanges and the risk of opportunism was irrelevant because of the large number of suppliers. Conversely, *relational*

exchanges took place over a period of time, involved high investments and, therefore, high switching costs because spatial and monetary investments made in relationship were not easily exchangeable. The parties involved would, therefore, have to develop social networks to safeguard their investments and ensure that their mutually compatible goals could be achieved. Trust became an essential requirement to ensure that parties did not act for their own benefit and long-lasting relationships required commitment to the relationship and open communication to ensure trust.

Thus, trust and commitment circumscribed the relationship by shaping the rules of engagement for the parties' interactions over time. Morgan and Hunt (1994) suggested that trust and commitment delimited the partners' choices since they were linked through personal ties, business ties, and the spirit of the relationship.

2.3.1 Relationship Marketing – History and Model

The development of RM can be traced to stages of industrialization and the prevailing need associated with the demand and supply situation of the economy. Sheth and Parvatiyar (1995) support this concept of marketing developing out of economics and in their article "The Evolution of Relationship Marketing" give an account of three eras and the development of marketing thought associated with each. In their paper marketing thought is seen to evolve in stages from relational marketing in the pre-industrial era of 19th century, to transactional marketing during the industrial era from early 20th century to around the 60's, and finally back to relational marketing in the post-industrial era. Sheth and Parvatiyar attribute this evolution of marketing thought to an orientation towards economics

and econometric models and profit maximization as the driving force in the industrial era which is marked by an oversupply of products, development of marketing functions, departments, and agencies, use of distribution channels, and initiation of many marketing concepts such as the marketing mix¹⁶, STP¹⁷, and branding theory.

On a similar note, Hedaa and Ritter (2005) describe the change in orientation of marketing thought from a production (competence) orientation towards product (offering), solution (sales), customer (problem), and finally to network orientations. *Production orientation* emphasized competence gained through superior production methods, the machinery, raw materials, and technicalities used, efficiencies in production, and acknowledgement of quality production through ISO/DIN certification (Hedaa & Ritter, 2005). This is in accordance with the initial industrial era of the early years of the 20th century described by Sheth and Parvatiyar. Marketing theories that evolved and developed around this time were concerned with operations management (Hedaa & Ritter, 2005) and emphasized capitalizing upon the industrial revolution by improving processes, machinery, and production, which formed the basis for competition (Shaw, 1912).

Product orientation is associated with the second and third decade of the 20th century when firms faced excess capacity and oversupply due to mass-production capabilities and a desire by managers to remove their increasing piles of inventories. Thus, marketing concepts such as personal selling, advertising, and sales promotion began to evolve. We see a stream of literature with theories on

¹⁶ Initiated in 1948 by James Culliton, who called the marketing manager a “mixer of ingredients”, labeled by Borden as “marketing mix” in the 50’s, the four P’s were listed by McCarthy in 1960 (Grönroos, 1994) as the product, price, place, and promotion.

¹⁷ STP: segmentation, targeting, and positioning

optimum utilization of sales force, advertising, and sales promotion. The era is characterized by self-interest strategies and the development and promotion of product classification and features such as uniqueness, quality, functionality, design, and other elements of product appeal (Cherington, 1920).

Theoretical models of the time emphasized the economic benefits of marketing and promotional activities through cost benefit analysis and thus theories such as Transaction Cost Analysis (TCA) are seen to prevail in literature of the era. Marketing was transaction-based and a short-term orientation guided marketing practices. The role of middlemen as providers of distribution and warehousing services gained momentum since outsourcing these activities was seen to be a more efficient option (Clark, 1922). A whole body of research developed on functions of middlemen and their role in the distribution channel (c.f. Shaw, 1912; Corstjens & Doyle, 1979; Stern & Reve, 1980; Coughlan & Wernerfelt 1989).

With capitalism as its backbone TCA postulated that choice-independence of marketers and consumers, and increased competition resulted in a desire to gain efficiencies through economies of scale. Firms were free to choose transactional relationships that offered best fit in accordance with their self-interest. In industrial marketing, the myopic view of stressing self-interest and gaining efficiencies through hard bargaining and bidding had a short-term exchange perspective associated with it. TCA was used to devise methods for competitive bidding. Every transaction was examined separately and documents were prepared for bidding in order to be successful in getting orders (Sheth & Parvatiyar, 1995). Thus the nature of transactions remained discrete (Morgan & Hunt, 1994;

Bagozzi, 1975) though some relational concepts such as ‘reciprocity’ are cited by Sheth and Parvatiyar (1995) as a means to “facilitate future sales” (p. 408).

The third orientation wave, the *marketing orientation* or *sales (solution) orientation* resulted from the continued desire to find markets for the products. Marketers turned their attention towards customers and customer retention was seen as important and efficient way to succeed. Research by prominent scholars such as Kotler (1972) (1994) showed that it was cheaper and more beneficial to retain a customer than to search for a new one. With a continued orientation towards TCA, scholars shifted their attention to the customer in order to understand what would induce him/her to try /buy more of, the product.

Theories on *Marketing Management* that started emerging in the mid-20th century discuss employment of Borden’s¹⁸ Marketing Mix¹⁹ and are predominantly econometric models aimed at profit maximization (Maxim, 2009). Customer repeat purchase and development of brand loyalty were key focus areas (Howard & Sheth, 1969). Marketing orientation looked at identifying and segmenting markets and evaluating the adaptive strategies used by firms to tailor their offering by manipulation of marketing mix elements. An understanding of the consumer was required to formulate a logic as to why the augmented product provided the solution for customer’s needs, with the result that studies in consumer behaviour began to intensify.

¹⁸ Neil Borden (1954) was the first to introduce the concept of marketing mix but his list consisted of a total of 12 variables (Grönroos, 1994)

¹⁹ Initiated in 1948 by James Culliton, who called the marketing manager a “mixer of ingredients”, labeled by Borden as “marketing mix” in the 50’s, the four P’s were listed by E. Jerome McCarthy in 1960 (Grönroos, 1994) as the product, price, place, and promotion.

In industrial marketing, companies began to see advantages in continued long-term relationships with other companies and formed long-term contracts and alliances (Sheth & Parvatiyar, 1995) to combine respective competencies and gain mutual benefits. International joint ventures and other strategic alliances gained momentum and a whole body of literature was dedicated to the initiation, maintenance, and success of such alliances. Theorists studied buyer/seller behavior in isolation to determine factors considered important for purchases/sales (c.f. Kotler & Levy, 1973). These studies mostly looked at one side of the exchange, either the buyer or the seller (Jackson, 1981), and a dyadic perspective was not the point of focus. Governance mechanisms were studied with a view to protect mutual interests and deter opportunism and other self-interest seeking activities.

The desire to gain an understanding of the customer in consumer markets, and continuous interactions through long-term contracts in industrial markets naturally led to a *customer orientation*, (or *problem orientation*: Hedaa & Ritter, 2005) where customer was considered to be the prime focus of all marketing activity. Studies on consumer behaviour theories gained momentum (Howard & Sheth, 1969) and researchers moved beyond the functional aspects of marketing mix management to its strategic role (Grönroos, 1994). Industrial marketing researchers turned their attention to the political dimensions of channel management.

With the advent of complex products that required additional support and services as part of the offering, such as heavy capital equipment, a *systems approach* to marketing was used by offering an augmented product that included a package of

services, e.g. delivery, installation, maintenance, after-sales services, training on how to operate the product, operations, and the like. A systems approach to marketing thus gave a holistic view where marketing is a system consisting of various parts that work together in sync to produce effective results (Shaw & Jones, 2005). In this regard, formation of vertical marketing systems (VMS) is an example of acquiring control of vertical channels. The development of VMS, such as franchising and retail ownership not only brought manufacturers closer to consumers but also gave them access to new markets. An alternative perspective of systems approach viewed marketing as part of a larger system, the society, and studied the consequences and effects of the two on each other (Shaw & Jones, 2005).

Attention was also turned towards services marketing as organizations began offering more services in their augmented product and full-service organizations emerged. The early seventies saw the emergence of marketing of service as a separate area of marketing, with its own set of models and variables since it was recognized that services differed in their bundle of offer to the consumer (Grönroos, 1994).

The direct interactions of buyers and sellers within such approaches as the systems approach and services marketing approach brought about a *relationship orientation* where firms began to develop relational contacts with their customers with an understanding that such relationships were beneficial to both parties involved. Sheth and Parvatiyar identified five macro-environmental developments that induced relational exchanges, namely: rapid growth of information

technology; adoption of TQM²⁰ programmes; growth of services economy, with greater buyer-seller interactions; decentralization at organizational level; and increased competition.

Advances such as those given by Sheth and Parvatiyar have reduced the need for middlemen and have brought customers closer to the manufacturers (Bello, et al., 1991). For example, information technology makes it possible for household consumers and industrial buyers to interact directly with the firms. Similarly, firms are able to provide direct customized service to their customers because of the availability of large databases that store information on every single transaction a customer makes. Industrial buyers and sellers are more involved with each other's activities through systems such as ERP and other data-sharing systems.

These close contacts between buyers and sellers induced marketers to study relationships in a different light (Hinde, 1995). Interactions were not just transaction-based (Bagozzi, 1975): the human element of the interaction resulted in social and relational elements of perceptions, impressions, and a build-up of history. Relationships were built that went beyond business aspects to include social interactions and emotions. Studies have emerged that look at the formation (Ford, 1980), maintenance, continuation (Dwyer, et al., 1987), and even dissolution (Morgan & Hunt, 1994) of these relationships. The term *Relationship Marketing* evolved in the 70's and had many proponents who contributed theories and ideas to the concept. Around the same time, Upsala School's IMP group developed their interaction model based on the concept of ongoing relationships

²⁰ TQM: Total Quality Management

that were formed on the desire to reap mutual benefits in industrial markets (detailed earlier).

In sum, the work of eminent scholars such as MacNeil (1980), Dwyer et al. (1987), Gummesson (1997), Ford and Håkansson (2005) and others in the seventies and eighties built on social exchange theory²¹ to bring about this shift from the traditional view which was based on the marketing mix towards ‘soft’ variables of exchange in the field of marketing, and turned transaction relationships towards relational exchanges, both in theory and in practice.

IMP Group’s work on IaT added to the understanding of relational exchanges between industrial buyers and sellers. RM scholars suggest that close inter-firm ties produce a lot of beneficial effects for the firm including trust in exchange partner, commitment to the partner’s business relationship, and satisfaction with the exchange process. Evolving out of services and industrial marketing, RM found a stronghold in consumer marketing as well with the advent of internet and online direct interactions with consumers and customers alike.

During the eighties, Anderson and Narus (1984) built upon the work of Social Exchange Theory posited by Thibaut and Kelley (1959), and proved that adaptation of behaviour in exchange relationships occurs as a sign of good faith, resulting in greater trust and concomitant closer linkage. When positive outcomes – social and economic – are seen over time, there is an increase in the level of trust and commitment which shapes relational norms that govern the nature of

²¹Social Exchange Theory describes “longitudinal exchange relations” (Emerson, 1976) where the initial exchange is not based on a calculation of benefit in return but continuation of exchange depends on expectation of reciprocity. Relational exchanges tend to dissolve with no returns over time. Describes reciprocity norm and studies role of power and commitment in social exchanges.

future interactions. Jap (1999) studied relationships between trading partners and demonstrated that setting of congruent goals between trading partners lessens the threat of opportunism since potential long-term gains from the relationship are found to be more attractive than short-term benefits. In addition, she advocated the role of individuals, especially boundary spanners, in building closer collaboration between firms.

It is clear from the extant literature that relational exchanges and market-orientation complement one another and serve as the foundation for collaboration between trading partners. In short, with the paradigm shift in sellers' role as solution-providers and not product-sellers, a collaborative framework remains the dominant choice for managerial practice.

In summary, relational exchanges are characterised by shared norms of conduct where exchange-partners see their relationship as important and work to preserve it through actions of cooperation and benevolence (*relationship preservation* - Kaufmann and Dant, 1992; Brown, et al., 2000), build role expectations through *role integrity* for all transaction and non-transaction specific issues (Kaufmann & Dant, 1992; Brown et al., 2000), and achieve mutually satisfying resolution of their conflicts through the norm of *harmonisation of relational conflict*.

2.4 COMPARISON OF INTERACTION THEORY AND RELATIONSHIP MARKETING THEORY

While both IaT and RM theory study exchange relationships, RM has become the domain of customer relationship management in consumer and services marketing, with its emphasis on building customer loyalty through the help of

large databases which provide information on individual customers and, therefore, help maintain one-to-one relationships with them through focused and targeted services. Customers are part of the value-creation process, with their inputs on aspects such as product, quality, service, and the like. IaT, on the other hand, evolved from B2B marketing, dominates the industrial marketing arena, and studies the build-up and continuation of interfirm relational exchanges within the context surrounding the relationship.

Most IaT studies tend to be qualitative in nature and involve in-depth case studies of interacting firms with a single dyadic relationship as the unit of analysis, though some case studies may involve quantitative data, and therefore, quantitative analysis. RM studies lean towards quantitative analysis of relationships that are considered out of context since they involve large numbers of consumers who are usually geographically, socially, culturally, and economically diverse.

Thus, RM studies multiple relationships with a view to building ongoing customer relationships. In this context, RM prescribes, rather than describe, ongoing long-term relationships (Bridgewater & Egan, 2002). IaT assumes that long-term relationships are desirable but proponents warn against adherence to a partner where long-term mutual benefits may not be apparent (Young & Denize, 1995). In other words, long-term relationships are desirous in IaT but the emphasis on a “win-win” outlook for both buyers and sellers in a B-to-B context points to the fact that an exit strategy may be required in situations where industry dynamics or individual relational interactions result in persistent decline in mutual benefits.

The framework of both interaction theory and relationship marketing theory provides a holistic picture of an exchange relationship and is desirable for an exploratory research which does not set predetermined criteria for evaluation.

2.5 LITERATURE REVIEW ON RELATED CONCEPTS

In this section a view of literature is presented which will shed light on the topics that have found currency in research and that are relevant to the research on importer-exporter relationships. Since this research deals with importer-exporter relationships in the international B-to-B context, a review of literature on the topic develops an understanding of factors that result in a decision to import/export and outlines past findings on the nature of relationship between importers and exporters. Importer-exporter research in the context of IMP model is also studied to establish a link between the model and extant literature.

The review starts with building an understanding of research on Interorganisational relationships in the importer-exporter context, and its relevance to the IMP model. Further review is presented on topics that have found currency and frequency in studies on interorganisational relationships.

2.5.1 Interorganisational Studies on Importer-Exporter Relationships

According to Leonidou and Katsikeas (1996) export is defined as the transference of goods or services across national borders using direct or indirect methods. Literature on international marketing abounds with topics on exporter behaviour but interest on importer behaviour has emerged recently. IMP's IaT proposes that both actors in an interorganisational exchange are active participants of the

exchange process and as such their perceptions, decisions, and actions impact the overall performance of the relationship. RM also places great emphasis on customers' role as value-creators and knowledgeable business partners and advocates maintaining long-term relationships with them through striving to achieve customer loyalty.

However, interest in the importer aspect of the importer-exporter relationship has been slow in development. Prior research examined international marketing mainly from the supply-side, i.e., exporting, although inefficiencies associated at the buyer-end, i.e. importing, if left unchecked, negatively affect the viability of long-term international relationships. Some widely accepted models presented by researchers such as Johanson and Wiedersheim-Paul (1975), Bilkey and Tesar (1977), Czinkota and Johnston, (1983), point out that the import process is critical for successful export activities, especially in the early stages of a firm's growth and development on the internationalization path.

A number of studies have emerged in the recent two decades on importer-exporter behaviour in interorganisational context. Reasons for this could be cited as relaxation of trade barriers across the globe and increased competition necessitating the need to acquire raw materials, components, technology and the like at low cost, and build competitive advantage through synergetic activities with international suppliers (Murray & Wildt, 1995). However, a very recent review on importer research by Aykol, et al. (2012) identifies only 9% of articles (n=212) published during 1960-2010 with importer-exporter dyad as the unit of

analysis. This is surprising considering the fact that prominent theories²² in the area emphasise interaction as centre to interorganisational activity. Similarly, in a recent study on export relations, Styles, et al., (2008) point out that research on buyer-seller relationships has concentrated on only one side of the relationship.

Of the studies that have been conducted with dyads as the focal point, not many involve actual interacting partners to trade [cf Payan and Nevin (2006); Anderson, et al., (2009) Hadjikhani and Thilenius (2009); Leonidou, et al., (2011)]. Some researchers have taken the dyadic perspective with actual interacting actors. For example, Anderson and Weitz (1992) examined actual dyadic pairs of manufacturers and their distributors to study commitment through the use of pledges.

Deshpandé, et al., (1993) introduced “quadrads” of manufacturers and their key customers to study effects of corporate culture, customer orientation, and innovativeness on business performance. Styles et al., (2008) developed a relational model of reciprocal perceptions based on current and past experiences by collecting data from 125 Australian and Thailand importer-exporter dyads. Earlier, Mouzas and Araujo (2000) carried out a longitudinal case study of manufacturer-retailer networks to examine the adoption of programmatic initiatives such as ECR²³.

Recently, case study research with actual dyadic relationships as the unit of analysis has gained momentum [cf. Styles, et al., (2008); Huemer, et al., (2009); Hanne and Andersen (2009); Tunisini and Bocconcelli (2009); Jensen (2010); and

²² IMP model, RM, Social Exchange Theory, Relational Exchange Theory to name a few

²³ ECR – Efficient Consumer Response

Johansson (2012)]. However, their advent in mainstream publications is low (Aykol, et al., 2012) and they leave many areas to be explored. Therefore, there is a need to extend knowledge of dyadic relationships by involving actual actors as research subjects. This is a reflection of Ambler and Styles' (2000) point "Despite the practical constraints facing this methodology (e.g. obtaining the agreement of both sides of a dyad, requiring double the number of respondents), dyadic studies should become the rule rather than the exception in relational research, whether qualitative (e.g. case study based) or quantitative (e.g. survey)".

Studies on importer-exporter relationships have examined different aspects of the variables emphasised in the IMP model. For example, exporting is studied as a step towards internationalisation. In research on internationalisation, Bilkey & Tesar (1977) surveyed small and medium-sized firms in Wisconsin and found that firms go through six stages, from a no-exporting decision, to exporting, to one country, to studying the possibility of exporting to other countries as well. This is in accordance with the IMP industrialisation model where Johanson and Wiedersheim-Paul (1975) described the establishment chain and Johanson and Vahlne (1977) proposed incremental commitment based on increase in knowledge through gradual experience and familiarity.

The four components²⁴ of the IMP model have also been studied separately in importer-exporter research. For example, within extant exporter research, in an earlier article Tookey (1964) sites four major factors that have a significant effect on exports by individual manufacturing firms. These factors are firm size, country's export policy, home marketing channels, and export marketing methods

²⁴ Actors, process, environment, and atmosphere

including the use of export services. Later, Czinkota and Johnston (1983) found that firm size did not impact a firm's decision to export. Tookey also suggested that small firms lacking the financial resources needed for export could tie up their resources with other firms in the industry to jointly carry out the marketing activities for exporting similar products since they shared similarity in their need for information and services. Around five decades later, Ghauri et al. (2003) also suggested the use of networks where small firms could combine their resources to have the financial strength for export.

The stream of research on perceived export barriers (Bilkey, 1978; Czinkota & Rick, 1983; Kedia & Chhokar, 1986; Sharkey, Lim, & Kim, 1989) outlined various barriers to exporting such as government policy²⁵, perceived procedural and technical complexity²⁶, perceived cultural differences²⁷, perceived lack of resources, and local competition²⁸.

Barrett and Wilkinson (1985) studied the need for providing export assistance schemes and enhancing export promotion policies in Australia and found that a firm's need for assistance decreases as it gathers international exporting experience. During the same year, Bodur and Cavusgil (1985) researched Turkish exporting firms and also found that export promotion agencies needed to provide more stream-lined information to assist exporters. They found a lack of planning and structure in export activities and the need for more information searching in exporting to less-developed countries as compared to developed ones. Darling (1985) outlined variables of successful exports to US as: analysis of market

²⁵ An 'environment' factor of IMP's IaT

²⁶ A 'process' factor of the IMP's IaT

²⁷ A 'process' factor of the IMP's IaT where the process involves information exchange

²⁸ An 'environment' factor of IMP's IaT

opportunity, assessment of product potential, establishment of market entry mode, firm commitment, allocation of necessary resources, identification of technical issues, development of a strategic marketing plan, organization of operational team, implementation of marketing strategy, and evaluation and control of operations.

An appropriate categorisation of Interorganisational studies on importer-exporter relationships was given by Leonidou et al. (2006), who divided importer-exporter research into four distinct streams: determination of behavioural attributes; associations among these attributes; links between exchange atmospheres and the attributes; and changes in atmosphere at different phases of relationship development.

An important research in the first stream of studies on *behavioural attitudes*, is that of the IMP Group which established adaptations, conflict, commitment (Ford, 1984), trust, and long-term orientation as salient features of exchange relationships (described earlier). Similarly, two other studies – one: a series of papers on relationships between British importers and Cypriot exporters (Katsikeas & Piercy, 1990a, 1990b, 1992, 1993), and two: British importers and Greek exporters (Leonidou, 1989a, 1989b) – showed presence of a healthy atmosphere established through low conflict, high cooperation, mutual adaptations, high levels of commitment, reduced social distance, and high overall satisfaction with power-dependence balance tilted towards importers owing to their expertise and knowledge of markets. From another angle, Heide and John (1992) showed the presence of norms as relational control mechanisms for power-

dependence, and its likely resultant opportunism, instead of the use of strict formal contracts in an exchange relationship.

The second stream of research looked at *associations among behavioural constructs in exporter-importer relationships* (Leonidou et al., 2006). For example, Hald et al. (2008) examined ‘attraction’²⁹ as a consequence of perceived expected value, perceived trust, and perceived dependence. Lee and Suh (2007) showed that satisfaction and commitment have a positive effect on importer’s benevolence towards export exchange partner, but satisfaction does not have a significant effect when cultural familiarity is low whereas commitment’s influence on benevolence is significant regardless of cultural familiarity.

Rosson and Ford (1980, 1982) carried out an Anglo-Canadian industrial study where they found a direct relationship between a party’s stake in a relationship and the influence exerted by the other party on it. They also found that greater experience with the relationship resulted in less conflict and more mutual decision-making while high levels of relationship uncertainty required the establishment of explicit roles and routines, reduced joint decision-making, and more frequent conflict.

In a Trans-Atlantic study Geyskens et al. (1996) established a relationship between trust and calculative commitment and found that trust has a negative impact on calculative commitment and calculative commitment is greater when total interdependence is higher. Ulaga and Eggert (2006) looked for a relationship between relationship value (RV) and RQ and found that RV was positively

²⁹ Attraction here is meant as “the force that pushes the buyer and supplier closer together in a dyadic relationship” (Hald, et al., 2008, p. 2) and is based on the Social Exchange Theory where transactions start voluntarily and without expectation of reciprocity in the beginning.

correlated with RQ and that RV strongly influenced satisfaction with the relationship but its effect on commitment and trust was weak. They also found that satisfaction directly influenced behavioural intentions to expand or leave the relationship.

The third stream of research identified by Leonidou et al. (2006) showed *links between operating performance and the atmosphere governing the exporter-importer working relationship*. For example, Rosson and Ford (1982) showed that extensive adaptation and commitment were characteristic of successful relationships with a healthy atmosphere of low inter-company tension and disagreement. Moreover, Aulakh et al. (1996) related improved performance of exchange relationships with the existence of bilateral relational norms and information monitoring mechanisms that helped build trust in cross-border partnerships.

Ha et al. (2004) studied cultural effects on relationships and found that relationships with cooperation and trust are stronger with low cultural distance, whereas Nes et al. (2007) hypothesized a negative effect of cultural distance on trust and communication but an increase in both trust and commitment with increased communication. They also positively relate commitment to the foreign middleman with perceived financial performance. This is in line with a previous study of relationships between Saudi dealers and their foreign automotive suppliers where Ahmed & Al-Motawa (1997) found that manufacturer's role performance was positively associated with communication.

The final stream that Leonidou et al. (2006) identified related to *changes in relationship atmosphere* in accordance with *the evolution of the firm's export development process*. As previously defined, atmosphere refers to the power-dependence, conflict-cooperation, closeness-distance relationships between the companies as well as the companies' mutual expectations. In this context, Johanson & Wiedersheim-Paul (1975) propose a model where firms internationalise through a series a steps starting from domestic sales to international manufacturing and that learning is incremental and based on the stage of internationalisation of the firm. This process of internationalisation is guided by the degree of perceived psychic distance the firms experience with the foreign country. The authors propose that firms first enter the countries that are psychically close to the home country and gradually move to countries with larger psychic distance as they acquire their experiential knowledge.

On the same lines, Wortzel and Wortzel (1981) prescribe increasing levels of control over foreign markets' marketing operations as exporting firms from less-developed countries move through five stages of internationalisation. Similarly, Malhotra et al. (2003) proposed that at the entry stage the higher the degree of country risk, location risk, demand risk, and competition risk the more likely it is that a firm will choose to export rather than wholly own an FDI³⁰.

2.5.2 Contribution of Importer-Exporter Research to Interorganisational Relationships Studies

In summary, this section provided the various directions taken by researchers on importer-exporter research. Extant research on importer-exporter relationships fits

³⁰ FDI: Foreign Direct Investment

well into the frameworks of both IaT and RM. The attributes that invariably stand out in the importer-exporter literature as important to building a healthy and long-lasting exchange relationship are trust in the exchange partner, degree of commitment to the relationship, power balance, interdependence, cooperation, conflict, satisfaction, communication and other qualities that define behaviouristic attitudes towards individuals, firms, and systems etc. IaT also emphasises the build-up of trust and commitment as a way to foster long-term healthy relationships, while RM observes trust leading to loyalty of the customer towards the organization and/or product usage.

Power balance, interdependence, cooperation, and conflict define the 'atmosphere' of Interorganisational relationships as proposed by the IaT model whereas factory size, technology, product/service, resources, communication etc. are the actors and processes involved. Factors such as government policies and competition make up the environment surrounding the exchange. Most Interorganisational research emphasises these variables as important for building mutually beneficial business and interpersonal relationships.

Most importer-exporter literature studies one side of the equation, i.e. the exporter, and investigation into importer behaviour has started only recently with repeated calls by scholars to look at relationship-building from either end of the chain (Leonidou, 2003). In a very recent study published in the *Journal of Relationship Marketing*, Ahmed (2009) examined reciprocal commitment in a true dyadic setting by contacting actual relationship partners from Australia and Thailand. Ahmed claims in his paper, "This is one of very few studies that has taken into account the perspectives of both sides of the dyad when identifying the

determinants of relationship performance” (p. 13) and highlights the need to conduct more cross-cultural studies in the true dyadic context with actual dyadic partners.

Review also showed that although import-exporter research has gained momentum in the past two decades, it has not kept pace with increase in cross-border trade, especially after liberalisation of trade policies (Skarmeas, et al., 2002). There is much to be discovered regarding establishing successful business relationships between economies with greater geographical and psychological distances and higher rates of uncertainty and, therefore, risk (Leonidou et al., 2006; Aykol, et al., 2012).

Researchers have urged that studies be conducted to understand relational exchanges between the Western and Eastern cultures since there is likely to be an “.....exponential increase in the number of East-West exchange relationships..... this century” (Styles, et al., 2008, p. 881). This research is an attempt to bridge this gap and shed light on trade with an economy which is uniquely different from those for which the current models of cross-border business relationships are made, namely the USA, Europe, Australia, and some South East Asian countries.

Some of the major concepts that are used frequently in research on B2B, buyer-seller, importer-exporter, and manufacturer-supplier relationships in IaT and RM are defined below to build an understanding and set a framework for research.

2.5.3 *Relationship Quality*

It is a well established fact that serving existing customers more efficiently is cost-effective for an organization as compared to attracting new customers and building new relationships (Kotler & Keller, 2006). That is why researchers have expressed the need to expand knowledge of industrial interactions to include relational aspects as well (e.g. Bagozzi, 1975; Wilson, 1995; Dwyer et al., 1987).

RQ has, therefore, become an area requiring enquiry and understanding for the past two decades in pursuit of the concept of RM. However, its entrance into the field is comparatively new, especially when compared with service quality or the more tangible product quality which have been well-acknowledged as the crux of marketing and have received the attention due to them. One reason for it is that the concept of RM is itself comparatively new and has a history of about twenty years of full attention and acknowledgement. Attention has been diverted towards RQ in the nineties and we see some research on the definition and construction of the concept.

The strength of a relationship in marketing is measured by the quality of that relationship. Johnson defines RQ as the element that “describes the overall depth and climate of the inter-firm relationship” (1999, p. 6). Johnson differentiates RQ from relational exchange in that relational exchanges assume interdependence, long-term orientation, closeness, and the existence of relational norms whereas it is possible that the quality of a short-term episode of exchange that is closer to a discrete transaction can be high as well with regards to such attributes of RQ as satisfaction, competence, and fairness. Iterative high quality episodes make a partner attractive to do business with and may result in a desire to continue the

relational exchanges. It may then follow that high RQ of individual episodes may lead to a desire for continuity of interactions and, with constant reinforcements, an ongoing long-term relationship. It follows then that perception of quality of a relationship (PRQ) is positive when past experience with the trade partner is positive and favourable.

Smith definition of RQ as “an overall assessment of the strength of a relationship and the extent to which it meets the needs or expectations of the parties based on a history of successful or unsuccessful encounters or events” (1998a, p. 78) reinforces this point. This definition offers the spatial and temporal aspects of RQ that are characteristic of relational exchange.

According to the definition, history plays an important role in the establishment of successful relationships, therefore, understanding how to initiate, develop, and maintain high quality buyer-seller relationships in international markets is critical to successful export involvement (Styles & Ambler, 1994). But the trading partners are not restricted to exchange relationships with each other only and have various relationships surrounding the focal interaction (Håkansson & Ford, 2002). Of interest are the relationships with other exporters/importers that the importers/exporters deal with in the same product category and external environment. Assuming similar environment and product type, the importers/exporters formulate attitudes towards their interacting partners based on their interactions not only with the focal partners but also with other similar partners in their extended relationships.

Thus an importer/exporter from UK/Pakistan will evaluate the focal partner not only on his/her behaviour but also on the behaviour of other importers/exporters that he/she deals with in the same country. Added to this is the evaluation based on interactions in different environments, for example other countries. Thus it can be assumed that an importer's/exporter's evaluation of, and resulting attitude towards, the focal exporter/importer is based on prior perceptions based on knowledge (general and experiential) gained elsewhere as well as experience with the exporter/importer (Kumar, et al., 2003). In line with this thought, an addition to the concept of perception of the quality of a relationship would be that the RQ is judged not only on the basis of past experiences with the dyadic partner, but also cognitively compared with other similar relationship in order to make an overall evaluation..

Foxall (2005) suggests that behaviour results in formation of attitudes by the receiving party: these attitudes set expectations of future behaviour and are a better predictor of behaviour as compared to attitudes that are not formed on past behaviour. It may be deduced that through continuous reinforcement, episodic behaviour can overcome the effects of earlier positive/negative attitudes that were formed outside of the relationship.

When a behaviour is performed repeatedly it becomes routine and automatic (Ouellette & Wood, 1998). Mulhern (1997) and Volle (2001) relate past behaviour to build-up of preference for, and 'attraction' towards the relationship. According to Ford (1980) quality relationships between buyers and sellers acts as glue that binds members to each other so that they are able to reap benefits beyond the mere exchange of goods. This leads to long-term and more stable relationships in which

members benefit mutually. 'Attraction' in the relationship is thus an important aspect in maintaining and evaluating buyer-seller relationships.

Other areas of research define RQ according to the product, service, or process involved. RQ has been examined in a variety of disciplines and, according to these disciplines, Huntley (2006) identified five major approaches to the definition of quality in literature, showing its importance in various perspectives:

The **User-based Approach** – drawn from economics, marketing, and operations management – suggests “ideal points” or attributes that provide the greatest satisfaction and a perception of quality is made based on a comparison with the ideal.

The **Value-based Approach** from operations management considers costs, prices, and performance evaluates quality against the cost of acquisition, i.e. performance is evaluated against the cost of acquisition (Huntley, 2006). Again, as in the case of products or services, consumers have predetermined perceptions about quality levels offered at various price points and evaluate the offering accordingly. The first theme including user-based and value-based approaches describes technical dimensions based on characteristics of the product offering. This technical dimension or ‘outcome dimension’ (Grönroos, 1991; Holmlund, 2001; Parasuraman et al., 1985), is generally defined as product quality by most researchers.

The **Social/Service Based Approach** is derived from service quality where the deliverer of service plays a very crucial part in setting the standard for RQ. This is thought of as a functional or process-related dimension of RQ (Grönroos, 1991;

Parasuraman et al.1985) and describes the intangible elements that are characteristic of service delivery (Parasuraman, et al., 1988).

The **Partnering Atmosphere Approach** is found in the IMP Group's interaction approach. As discussed before, this approach suggests IMP's concept of atmosphere around the interacting organizations and involves elements such as power/dependence, distance/closeness, conflicts/cooperation that influence individuals and are themselves influenced by the individuals (Krapfel, et al., 1991). This construct of atmosphere reflects the balance of power and the development of relational norms that check opportunism and foster a spirit of mutual collaboration to achieve mutually beneficial goals.

Developed as indicators of successful partnerships (Mohr & Spekman, 1994), these elements may be captured in the firm's view of the relationship as a vital partnership. As currently conceptualized, and with modifications to Håkansson's (1982) model, the concept of relationship atmosphere addresses six specific atmospheric dimensions: (1) power/dependence balance; (2) cooperativeness/competitiveness; (3) trust/opportunism; (4) understanding; (5) closeness/distance; and (6) commitment.

Finally, the last dimension, the **Relationship-Based Approach**, is consistent with the Value-Based Approach to quality definition but adds the concept of time to relate relationship to long-term goals. The issues of "pricing" and "price performance" are supported in an economic dimension while temporal and spatial dimensions are thought of as the fundamental notion of relationship. As mentioned earlier and according to the definition given by Smith (1998a), the

concept of interactions over time (Dwyer et al., 1987; Webster, 1992; Price & Arnould, 1999) or the longitudinal nature of relationships is integral to the notion of RQ. Reoccurring interactions are prerequisite to distinguishing relational exchanges from transactions (Dwyer et al., 1987; Ganesan, 1994).

Consequently, the role of market relationships has emerged as a top priority for most business firms around the world and the last decade has seen a plethora of research directed at understanding and refining the concept. However, research on inter-firm relationships has largely focused on developed countries, e.g., the USA (Raven, Tansuhaj, & McCullough, 1993; LaBahn & Harich, 1997) Europe (Leonidou & Kaleka, 1998; Katsikeas & Piercy, 1990b), Japan (Lohita, et al., 2005; 2008; 2009), and other South East Asian countries.

However, with easing of trade barriers, increasing price competitions, and a shift in manufacturing from developed nations to the third world, it is important to understand the concept of building strong interorganisational relationships with high RQ in settings that are different from the ones already examined and that may offer challenges to buyers and importers because of incongruence of perceptions and misunderstandings about basic interaction processes like communication, participant relationships, atmosphere, and environment etc. Some research has started to look into the variables of the newly developing, culturally diverse dyadic relationships, for example Ha et al.'s (2004) research on Korean importers and exporters and Phan et al.'s (2005) study of trade of Australia with Thailand, Indonesia, and Malaysia. This research hopes to increase theoretical knowledge by bringing to fore the differences and similarities in a contextual form of relational exchange between UK and Pakistan.

2.5.3.2 PERCEIVED RELATIONSHIP QUALITY

At this point, a distinction needs to be made between RQ and perceived relationship quality (PRQ). Assuming quality to be a measure of superiority or excellence (for example, the actual technical superiority of a product over another), perceived quality can be defined as judgment about an entity's overall excellence or superiority. Therefore, perceived quality is a subjective measure or higher level abstraction which is different from objective quality and is based on some evaluation criteria by making comparison with a standard in what is known in consumer research as the 'evoked set'.

Definitions of RQ such as Smith's: "an overall assessment of the strength of a relationship and the *extent to which it meets the needs and expectations of the parties...*" (1998a, p. 78), Crosby et al.'s "...offering assurance that the salesperson *will continue to meet the customer's expectations (satisfaction).....*" (1990, p. 76), and Holmlund's "...joint cognitive evaluation of business interactions by significant individuals in both firms in the dyad. *The evaluation encompasses a comparison of experienced with desired, potential, usual or previous interactions which constitute comparison standards*" (2008, p. 35), express PRQ as a subjective measure based on expectations.

Objective Quality versus Perceived Quality. Several researchers (Parasuraman, et al., 1985; Dodds, et al., 1991) have emphasized the difference between objective and perceived quality where the former involves the objective aspects or features and the later involves a subjective and highly relativistic response which would differ from individual to individual. "Objective quality" refers to measurable and verifiable superiority (usually technical) (Monroe & Krishnan, 1985) whereas

‘subjective’ or perceived quality is based on value judgements. For example, in consumer research consumers evaluate product quality as high or low depending on the product’s relative excellence or superiority among products or services that are viewed as substitutes by the consumer.

In this context, the present study is an investigation into the perceptions of importers about the dyadic relationship where it is assumed that perceptions are subjective and differ from person to person and organisation to organisation. Two individuals involved in an exchange relationship may share experiences objectively but will perceive them differently according to their own set of evaluation points. It can, therefore, be said that perceived quality of relationships between importer exporter dyads is a subjective measure of each partner about the strength of the relationship.

In the IMP model, a dyadic relationship is studied between two organizations that have various actors interacting with each other inter- and intra-organisationally over many episodes, with each actor having his/her own set of preconceptions and perceptions. Thus, it is important to study both sides of a match dyadic pair of importers and exporters to understand convergence and points of departure in the perceptions of interacting partners regarding the quality of their relationship.

According to the research questions, an examination of the UK-Pakistan importer-exporter dyads will give a definition of the type of relationship that has been created between the two exchange-partners. After making a distinction between RQ and PRQ, a brief description is given in the next section, of some of the

attributes of RQ that are dominant in research and that have explained RQ in most of extant literature.

2.5.3.3 DIMENSIONS OF RELATIONSHIP QUALITY

Although previous research into RM (e.g., Crosby, et al., 1990; Kumar et al., 1995; Hennig-Thurau & Klee, 1997; Dorsch, et al., 1998; Walter, et al., 2003) has discussed and tested the concept of RQ in various research contexts, the definition and operationalisation of RQ differs from research project to research project. Nevertheless, researchers of RQ have come to a consensus on the fact that RQ is a higher-order construct consisting of several distinct but related components or dimensions. These components are generally accepted as customer orientation (Narver & Slater, 1990; Dorsch, et al., 1998; Lukas & Ferrel, 2000), conflict (Skarmeas, 2006; Kumar, et al., 1995), trust in the salesperson (Lagace, et al., 1991; Crosby, et al., 1990), trust (Dwyer, et al., 1987; Dorsch, et al., 1998; Grönroos, 1991; Kumar, et al., 1995; Hennig-Thurau & Klee, 1997; Moorman, et al., 1992), satisfaction (Crosby, et al., 1990; Geyskens & Steenkamp, 2000; Rodriguez et al., 2006), commitment (Dorsch, et al., 1998; Hennig-Thurau & Klee, 1997; Kumar et al., 1995; Moorman, et al., 1992) and perceived quality (Hennig-Thurau & Klee, 1997; Moorman, et al., 1992) to name a few.

In short, RQ has been assigned several distinct dimensions such as trust, commitment, and satisfaction (e.g., Smith, 1998a, 1998b), willingness to invest, conflict, expectation of continuity (e.g., Kumar, et al., 1995), munificence and minimal opportunism (Dwyer & Oh, 1987). In services marketing, different antecedents of RQ have been examined such as sales persons' characteristics (Crosby, et al., 1990), relationship duration (Haugland, 1999), relationship

management (Smith, 1998b) fairness (Kumar, et al., 1995), use of relationship manager (Colgate & Lang, 2005), key account management (Ivens, et al., 2009), and various relationship functions (Walter, et al., 2003).

Of interest has additionally been how RQ affects share of business (Leuthesser, 1997) strategic integration (Johnson, 1999), customer retention (Hennig-Thurau & Klee, 1997) service quality (Woo & Ennew, 2005), offering quality (Leuthesser, 1997), profitability (Huntley, 2006), and sales effectiveness (Crosby, et al., 1990). A high quality relationship enables a firm and its partners to enjoy long-term benefits of the relationship, ultimately leading to increased competitiveness and reduced transaction costs (Noordewier, et al., 1990). The cost advantage and competitiveness make it easier for the firm to satisfy its customers compared to its competitors, leading to an increase in customer loyalty. Therefore, the firm may have better opportunities for improved performance in terms of sales and profitability in the long-run (Crosby, et al., 1990).

RQ is also considered to be the essence of RM (Jap, et al., 1999) and serves as an indicator of the health and future well-being of long-term relationships (Crosby, et al., 1990). Therefore, several researchers have attempted to investigate possible predictors of RQ. An example in services marketing is of research in the life insurance industry where salespersons' expertise and relational selling skills were found to have a positive impact on RQ with customers (Crosby, et al., 1990).

Dwyer & Oh's (1987) study found that channel relationships' quality is adversely affected by the degree of partners' bureaucratisation. Procedural fairness has been examined to have a positive impact on RQ (Kumar, et al., 1995), while

environmental uncertainty has a negative effect. Smith's (1998) study indicated that relational bonds have a positive effect on RQ.

However, while numerous characteristics of RQ are proposed in literature, there does not seem to be any real consensus regarding its conceptualisation. There is also confusion regarding the antecedents, consequences and dimensions of RQ. Studies have used them interchangeably and there is also a confusion regarding the direction of relationships and inter-relationships of the first and second order constructs and consequences.

In literature, three variables, trust, commitment, and satisfaction are most often used to describe RQ. For example, a number of authors (Moorman, et al., 1992; Morgan & Hunt, 1994; Ulaga & Eggert, 2006) empirically found that relationship quality comprised trust, commitment and satisfaction. While researchers have proposed a great number of RQ components, they have most frequently studied the variables of trust, commitment and satisfaction (e.g., Anderson & Narus, 1990; Dwyer, et al., 1987; Morgan and Hunt, 1994). In addition, research has only conceptualized but not tested the use of perceived product/service quality as a dimension of RQ. Hennig-Thurau and Klee (1997, p. 751) argue that since product and/or service exchange is the reason behind any buyer–seller relationship, it is necessary to include the overall product- and/or service-related quality perception as a basic component of RQ.

Also included in extant research is the concept of perceived relationship value (PRV). PRV, which is the subjective measure of trade off between perceived benefits and costs of any activity (Kortge & Okonkwo, 1993) is often included as

a dimension of RQ by many authors. For example, Ulaga and Eggert (2006) treat relationship value (RV) as an antecedent of RQ and show that RV has an indirect positive effect on RQ by influencing satisfaction with the relationship. They also demonstrate a weak effect of RV on trust and commitment, thereby weakly affecting RQ. The relationship of RV with satisfaction is in accordance with previous research since value is known to be a subjective evaluation of cost with benefit, or expectations with reality, and satisfaction is achieved when reality is equal to expectation (Kotler & Keller, 2006).

Three attributes related to RQ – namely commitment, trust, and satisfaction – that have been mentioned repeatedly in RM literature are briefly explained below.

2.5.3.3.1 *COMMITMENT*

A significant number of authors regard the construct of commitment as the central construct in RM (Morgan and Hunt 1994; Stanko, et al., 2007; Styles, et al., 2008). Buyer-seller relationship literature defines commitment as “an implicit or explicit pledge of relational continuity between exchange partners” (Dwyer, et al., 1987). In simpler terms, commitment refers to the motivation to stay with a supplier (Geyskens, et al., 1999; Moorman, et al., 1992) or a psychological sentiment of mind which shapes attitudes concerning continuation of a relationship with a business partner. Commitment can also be understood as the desire to maintain a relationship with, and the willingness to invest resources in, a business partner (Anderson & Weitz, 1992; Dwyer, et al., 1987; Mohr & Nevin, 1990).

Commitment may be 'calculative' or 'affective' (Kumar, et al., 1994; Geyskens, et al., 1996; Lee, et al., 2008). *Calculative* commitment, a negatively-oriented type of motivation, refers to a firm's motivation to continue the relationship for calculative reasons based on cost-benefit analysis. On the other hand, *affective* commitment expresses a sense of belonging to the relationship and is based on a general positive feeling towards the exchange partner. It is the subjective component of commitment based on relational norms within the partnership and a sense of loyalty. This concept is closely related to Stanko, et al.'s (2007) construct of 'emotional intensity' which was found to have a significant bearing on commitment and which is an evaluation of deep-rooted relational norms, benevolence, and emotional support.

Recent research has looked into the antecedents and consequences of commitment. For example, Lai, et al. (2008) treated RQ as an antecedent of trust and commitment and confirmed a strong relationship between trust and commitment with trust having a direct effect on commitment, and an indirect effect through expected relationship continuity. They also found that the effect of trust on commitment was high with high levels of uncertainty and low with lower levels. In their earlier study, Lai, et al. (2005) found that certainty of supply was positively related to commitment because when suppliers are ensured of a stable supply their interest in understanding buyer's requirements is heightened. Other studies also show a direct relationship between trust and commitment (Morgan & Hunt, 1994; Ulaga & Eggert, 2006; Lai, et al., 2008).

Some researchers, such as Ganesan (1994), Morgan and Hunt (1994), and Ruyter, et al. (2001) find that trust precedes commitment while others like Aulakh, et al.

(1996) and Medlin, et al. (2005) propose trust to be a consequence of commitment. Regardless of this conflict, most researchers have come to the conclusion that both trust and commitment are essential ingredients of a successful business relationship (Morgan and Hunt, 1994; Moorman, et al., 1992). Additionally, partner firm's commitment, trustworthiness, firm's own specialized investments, relationship termination cost, bilateral communication, manifest conflict, and shared values have been shown to be the primary determinants of a firm's commitment to its relationship with another channel member.

Effects of cultural similarity on commitment were examined by Karande, et al. (2008) who used relationship characteristics, exporter characteristics, and product characteristics as constructs of commitment and found that the effect of cultural similarity on relationship commitment is stronger for consumer products than for industrial products.

From the tie-strength perspective of network model, Stanko, et al. (2007) included antecedents of commitment as emotional intensity, reciprocity, and mutual confiding or sharing of critical and proprietary information, where emotional intensity was seen to be significantly correlated with commitment whereas the fourth dimension, relationship length, was not supported. In the same study, favourable buyer purchase behaviour was seen as a consequence of commitment. In an earlier study, Blankenburg Holm et al. (1996) found that relationship understanding, as well as business network, had significant positive relations to commitment, and commitment had a positive influence on relationship profitability.

To summarise, commitment generally evolves out of a long-term orientation towards the partnership, the creation of idiosyncratic investments or relationship-specific assets, emergence of relational norms, mutuality of goals and mutual strategic planning, evaluation of switching costs, business network connection, and relationship understanding (Blankenburg Holm, et al., 1996).

RM is based on developing and maintaining long-term relationships in order to foster customer loyalty and mutual commitment. IaT studies describe long-term relationships between trading partners and, therefore, commitment is an important topic of discussion among IaT researchers. The concepts of adaptation of processes, or products/services, and development and institutionalisation of norms are based on the understanding that firms find merit in maintaining long-term relational interactions with their trading partners and are willing to make sacrifices and adjustments to accommodate the trading-partner's requirements and ensure continuity of relationship. Thus, commitment is an important concept for relationship continuity in both RM and IaT.

2.5.3.3.2 *TRUST*

In B2B environment trust is an important underpinning of RQ. In order to acquire efficiency in operations and reap benefits of division of labour, firms concentrate on their core competencies and must entrust other crucial functions to, and acquire resources from, partner organisations. This dependence increases the risk of vulnerability when they rely on the other party to carry on part of their business because of the fact that crucial proprietary information is shared and relationship-specific investments may be involved. Thus, risk, exposure, and vulnerability

cause uncertainty which has a negative effect on the export venture's success (Matanda & Freeman, 2009).

Uncertainty may be lessened through formal stringent rules and regulations but these measures bring about inefficiencies whereas if the party in the relationship can be trusted and left to perform their operations with more freedom these inefficiencies are avoided. Trust, therefore, means that individuals expect predictable and obligatory behaviour from their relationship partners with a high degree of certainty (Marshall, 2003). When one party places trust on another, it means that he/she is willing to depend on the other to perform with selfless intent towards mutual goals (Deutsch, 1958).

But trust alone, without the support of structural bonds to safeguard against opportunism, involves the elements of risk and uncertainty. Thus, in the absence of contracts and warranties, or the presence of high risks and uncertainties, the parties would have to rely on trust as an informal form of control (Das & Teng, 1996). But for such a situation to develop, the interacting parties would have shared a sound history of positive dealings over time. According to Rodríguez and Wilson (2002), "The risk of non-reciprocity in this context is surmount by developing trust in social exchanges through experiencing the behavior of others. Processes of social exchange, which originate (from) pure self-interest, generate trust through their recurrent and gradually expanding character. Without a strong social foundation, contributions are tentative and the perceived probability of opportunistic behavior is higher".

Thus, accumulation of positive past experiences with the partner result in establishment of expectations and relational norms, and over time come to be accepted as the normal behaviour within the relationship (Emerson, 1981) which is relied upon without much doubt. In their study, Rodríguez and Wilson (2002) show that ‘social bonding’³¹ precedes the development of trust and commitment and conclude that both ‘structural bonding’³² and ‘social bonding’ are instrumental in building trust and commitment in strategic alliances.

Elliott and Yannopoulou (2007) describe a process of trust-building where trust evolves out of past experiences and prior interactions and develops in stages of predictability, dependability, trust, and maybe faith. Predictability requires some past experience to build an opinion of behaviour. Dependability is acquired with further experience of meeting with expectations. It is a move away from specific behaviour to generalised set of beliefs about a person.

Trust, the last stage before faith, is a move away from relying on rational cognition to relying on emotion and sentiment and developing intimacy. In the interorganisational context, this level of trust may be extended to act as the relational norm that performs the functions of structural bonds in order to check opportunism and self-interest while promoting consideration for the other part, reciprocity, and benevolence.

In a cross-border survey, Aulakh, et al. (1996) found that the effect of trust is moderated by asset specificity, or the idiosyncratic investments in the relationship.

³¹ Rodríguez and Wilson define social bonding as the psychological factors comprising of the affective, emotional and personal aspects of the relationship.

³² Rodríguez and Wilson define structural bonding as the fundamentals of economic exchange that include economic, strategic, and organisational linkages.

When the level of asset specificity is low, the effect of trust is not significant. But when the level of asset specificity is high, such effect is significant. Asset specificity, or idiosyncratic investments in the relationship increase the level of commitment. It follows that the greater the idiosyncratic investments in the relationships, the higher the dependency on the partner, resulting in greater commitment to the relationship and increased trust.

Trust is described both as a feature of RQ (Dwyer and Oh, 1987; Crosby, et al., 1990) and as its determinant (Anderson & Narus, 1984, 1990; Parasuraman, et al., 1985; Anderson & Weitz, 1992; Mohr & Nevin, 1990; Moorman, et al., 1992). Moorman, et al. (1992) define trust as "...a willingness to rely on an exchange partner in whom one has confidence" (p. 315). Several authors regard trust as a central construct to the development of successful service relationships in B2B markets, and for the achievement of customer loyalty in customer management and RM studies. Parasuraman, et al. (1985) showed that trust was a critical success factor in successful service relationships.

Customers need to feel safe in their dealings with suppliers and need assurance that their interaction is confidential in that they are able to trust their suppliers. Berry (1995, p. 242) further suggests that "relationship marketing is built on the foundation of trust". In addition, trust is an important feature or aspect in the building and development of quality relationships through the process of making and keeping promises (Dwyer, et al., 1987; Grönroos, 1991).

Summarizing the conceptual approaches of literature review, trust has four essential components: evaluations of *positive past experiences* that give a fair

level of predictability to the exchange partners; the belief that the relationship partner has *competence* to act for the benefit of the relationship (Moorman, et al., 1992; Ganesan, 1994); the belief that the exchange partner is *honest* and will be *reliable* and *credible* (Ganesan, 1994; Doney & Cannon, 1997); and the belief that the exchange partner will act *benevolently* and will not show *opportunism* (Anderson & Weitz, 1992; Geyskens, et al., 1996).

Benevolence is “the extent to which a trustee is believed to want to do good to the trustor aside from an egocentric profit motive” (Mayer, et al., 1995, p. 718) or perception of a partner’s moral standing, as measured by a willingness to uphold and safeguard the interest and well-being of that partner (Hosmer, 1995). The reputation of a firm is in part determined by how a firm performs on these dimensions (Hosmer, 1995). Benevolence is the trust-related component that describes how unlikely it is that the trustee will take excessive advantage of a trustor when such an opportunity is available (Dyer & Chu, 2000).

Research on trust by Li, et al. (2006) looked at effectiveness of control mechanisms in IJVs and found that communication plays a role in building trust whereas control mechanisms affect trust negatively through reducing decision-making authority. In a later study, Lai, et al. (2008) examined the dynamics of channel relationship between an end-user and multiple suppliers in Hong Kong and found a strong positive relationship between trust and commitment (mentioned under commitment). In their model, expected relationship continuity partially mediated the effects of trust on commitment and completely mediated the effect of RQ on commitment. Lai, et al. (2008) explained this as incentive of

higher gain through long-term relationship as compared to short-term gain through opportunism.

Recent and past research emphasises that it is difficult to establish trust across borders (Mehta, et al., 2006), especially when cultural differences between trading partners are significant (Lohtia, et al., 2009). The current study looks at factors that contribute to RQ in the UK-Pakistan importer-exporter dyads. This is a cross-border study and the issue of trust within the context is an important point of investigation.

2.5.3.3.3 *SATISFACTION*

Anderson and Narus (1984, p. 66) define satisfaction as “a positive affective state resulting from the appraisal of all aspects of a firm’s working relationship with another firm”. In this context, satisfaction results from a cognitive state that indicates whether prior expectations are met and what are the rewards received (Mohr & Spekman, 1994) and can affect morale and the intention to take part in collaborative relationships (Andaleeb, 1992).

Gassenheimer and Ramsey (1994) caution that the evaluation of satisfaction between two members of the marketing channel should include: (1) appraisal of the economic results in terms of efficiency and efficacy, and (2) appraisal of the social interaction with the partner.

First, performance evaluation contains the quantitative outcomes derived from the relationship, whether of objective form (such as sales ratios and incomes) or of subjective form (evaluation of the economic advantages derived from the relationship with another channel member).

Second, firms look for noneconomic rewards in terms of emotions (Gassenheimer, et al., 1996). In this way it is possible for there to exist a situation in which one party in the relationship may well be dissatisfied with a particular event or individual, and yet is generally satisfied with the interchange relationship as a whole (Ping, 1993).

On the same lines, other names given by researchers to these dimensions of satisfaction in channel relationships are economic satisfaction and non-economic or psychological or social satisfaction (Gassenheimer, et al., 1995; Gassenheimer, et al., 1996; Geyskens, et al., 1999; Geyskens & Steenkamp, 2000). Economic satisfaction is the appraisal of economic results derived from a relationship, such as turnover, market share, margins and discounts (Geyskens & Steenkamp, 2000). Accordingly, Jap and Ganesan (2000) use satisfaction with product, sales representatives, and financial results to identify relationship satisfaction.

Non-economic or social satisfaction is defined as a channel member's evaluation of the psychosocial aspects of its relationships, in which interactions with the exchange partner are fulfilling and gratifying (Geyskens & Steenkamp, 2000). Aspects of relationship such as social contact, communication or shared values form part of this social satisfaction. Thus, non-economic satisfaction refers to the evaluation of interactive experiences (Scheer & Stern, 1992) and exchanges that reflect the good psychological behaviour of the members (Gassenheimer & Ramsey, 1994).

In their meta-analysis Geyskens, et al., (1999) demonstrated an important difference between research focusing on the economic results of the relationship

and that which has studied satisfaction from a more social perspective. It is important to clearly establish the distinction between economic and social satisfaction because the activities of a member of the distribution channel can provide his partner with economic satisfaction and yet not offer him any social satisfaction, or vice versa (Geyskens & Steenkamp, 2000).

In RM, in the context of marketing channels, Geyskens and Steenkamp (2000) empirically find that economic satisfaction results in loyalty. In B2B research, several authors show the existence of a link between satisfaction and loyalty. For example, Eriksson and Vaghult (2000) found that satisfied customers stay with the firm. Their results show that as relationship satisfaction increases, so does customer retention. Their findings indicate that long-lasting and deep relationships are the result of the involved parties' satisfaction with the outcome of their work.

2.5.4 Opportunism

Acts of self-seeking behaviour or unethical practices violate the norms of trust, commitment, and reciprocity. Opportunism is the exploitation of a situation in one's self interest, or as Williamson (1975) defines it, "self-seeking behaviour" with the intention to harm. In business relationships, opportunism does not always have the intention to inflict harm at the other party, though it is implicit when a business partner acts in his self-interest without regard to the other's well-being.

A person inclined towards self-seeking behaviour may commit to opportunism at any time but there are certain conditions that facilitate, or provide an opportunity, for opportunistic acts. One example is that of asymmetric information or non-availability of complete information. When complete transparency is missing or

when a person is able to conceal his activities, opportunistic behaviour is easy to disguise.

Opportunism is said to be temporal when it happens at various stages over time (Williamson. 1985), or it could be formal when explicit written promises are broken or when one reverts from his own written formal promise.(Williamson, 1991). No matter how opportunism is conducted, it has deep repercussions on relationships by reducing both trust in, and commitment to, the partnership.

2.5.5 Literature on Dimensions of Atmosphere

IMP model emphasises the role of atmosphere in developing interpersonal relationships and shows its significance in cross-border trade where the concept of closeness/distance plays a significant role in firms' decision to internationalise. This research enquiry is a comprehensive investigation that will look at the relationships from conception and will build upon the atmosphere to understand perceptions based on factors such as cultural differences and their impact. Given the importance of dimensions and their relevance to this study, some descriptions and review of literature on power/dependence, conflict/cooperation, and distance/closeness are offered in this section.

2.5.5.1 POWER-DEPENDENCE RELATIONS

According to IMP model, power plays a significant role in channel relationships and significantly impacts RQ. A well-known definition of power is that the relative power of an organization over another is the result of the net dependence of one on the other. If A depends on B more than B depends on A, then B has power over A (Emerson, 1962). Likewise, Dickson (1983) states that power of

one party over another is a function of relative dependence. Anderson and Narus (1990) also use the term relative dependence to refer to the difference between a firm's dependence on its partner and its partner's dependence on the firm. Thus power and dependence are directly related. The more one firm feels dependent on another the greater it perceives the power of the other firm over it.

El-Ansary and Stern (1972) defined power as the ability of the parties involved in a working relationship to control the decisions concerning the operation of the venture. Power plays an important role in systematizing relationships (Dwyer, et al., 1987) and the different sources of power commonly cited are coercive, reward, legitimate, referent, expert, or information, based on the resources available to any or both of the exchange partners. These sources can be divided into two categories: coercive and non-coercive. For example, Leonidou et al., (2008) examined the role of exercised power on trust and commitment through the mediating role of satisfaction and conflict and found that implementation of non-coercive power produced sound relationships in export markets by reducing conflict and fostering satisfaction, while use of coercive power had adverse effects.

Buchanan (1992) conceptualized power-dependence imbalances in buyer-supplier relationships as the difference in value that buyers and sellers attach to the relationship and deduced that in asymmetric relationships, the most independent partner dominates the exchange while in balanced relationships there is domination of neither party. Kumar, et al. (1995) used the term 'interdependence asymmetry' in this respect, which is defined as the difference

between the two partner's levels of dependence while in symmetrical interdependence parties are equally dependent on each other.

Asymmetric interdependence in buyer-supplier relationships may result in the independent partner having the temptation to exploit his power (Anderson & Weitz, 1989; Geyskens, et al., 1996). Such power imbalances can lead to unproductive partnerships and eventually partnership dissolution by excessively eroding the position of the weaker party. Anderson and Weitz express that "imbalanced channel relationships are characterized by less cooperation and greater conflict" (1989, p. 312). However, an unbalanced relationship does not automatically involve actual misuse of power (Gassenheimer & Calantone, 1994). In a study on power and interdependence Caniëls and Gelderman (2007) observed that suppliers dominated in the strategic quadrant of high supply risk/high profit impact, which was in contrast to the expected results of balanced power. They postulated that it was an indication that suppliers are perceived to dominate in satisfactory partnerships.

Power has come to be accepted as a beneficial tool when used correctly because it is an effective tool for coordination of exchange relationships (Frazier & Antia, 1995). For example, Maloni and Benton (2000) found empirical evidence indicating the use of power asymmetry to promote supply-chain integration and to induce high levels of performance.

2.5.5.2 CONFLICT/COOPERATION

Strong dyadic relationships evolve through a process whereby firms come together with a mutual understanding of foreseen benefits in collaborating

activities (Håkansson, 1982) and in the process learn to adopt and adapt in order to bring synergy in their operations and coordinate their activities for maximum mutual benefits (Ford, 1980). Cooperation, then, is a key ingredient in streamlining the operations of the dyadic firms who each have a network of connected firms that influence the relationship (Blankenburg Holm, et al., 1996) and cooperation must be achieved throughout the network so that interaction is beneficial to all parties concerned.

Channel cooperation is defined as “complimentary coordinated actions taken by firms in interdependent relationships to achieve mutual outcomes” (Anderson & Narus, 1990, p. 45). IMP literature states that cooperation strategies are learnt through time but once acquired, they are transferable to other firms and networks as well (Blankenburg Holm, et al., 1996). Cooperation between firms is hindered by conflict which is the “perception on the part of a channel member that its goal attainment is being impeded by another, with stress or tension the result” (Gaski, 1984, p. 11). Whereas cooperation is the perception that benefits accrued to both firms are higher if they cooperate and indulge in mutual strategic planning and coordinated activities, conflict is the perception that one firm’s goals and actions are obstructive to another.

The definition of conflict given by Gaski (above) shows two types of conflict: *manifest* conflict, the cognitive state, where conflict is perceived to be manifest in the actions of the partner that cause hindrance; and *affective* or *felt* conflict which is apparent from the state of tension and stress. A reaction to the felt conflict through overt aggression or passive reaction is *conflictual behaviour* exhibited in the manifest stage (Katsikeas & Piercy, 1990a).

Whereas cooperation/conflict phenomenon is inevitable in channel relationships because of the manifest interdependence (Burrell & Morgan, 1979), it is more pronounced in cross-border business relationships because of the need to coordinate activities performed at greater geographical distances but with various levels of misunderstandings that may arise due to differences in socio-cultural, economic, and political backgrounds.

Leuthesser, et al., (1995) propose that some conflict is conducive to cooperation in the relationship because it brings out various issues that need to be resolved for effective and efficient performance of the dyadic relationship, but excessive conflict has a bearing on both the affective and manifest states and causes frustration, disillusionment, and hostility, which severely damage the relationship and may result in termination.

2.5.5.3 DISTANCE/CLOSENESS

In marketing channel literature, distance is the prevention, delay, or even distortion of the flow of information between sellers and buyers, which is responsible for keeping them apart (Johanson & Vahlne, 1977; Håkansson, 1982).

The issue of distance is more pronounced in the case of international markets which, apart from the higher geographic separation between sellers and buyers, are characterized by different socio-cultural, political-legal, and techno-economic environments (Terpstra & Sarathy, 2003). Such differences would require higher search and information-gathering costs as well as the added factor of higher perceived risk and uncertainty about alien environment (Stöttinger & Schlegelmich, 1998).

The concept of psychic distance has been developed to explain the phenomenon of distance or closeness with a partner country. The word is coined from the Greek word “Psychikos” which refers to an individual’s mind and soul, and distance which is based on perceived differences between a home country and a foreign country, without considering the objective time and geographical differences. As such it is the perceived difference, and not the actual difference, in an individual’s mind (Sousa & Bradley, 2006). This means that psychic distance is a subjective measure of similarity or dissimilarity between one’s country and another and is based on an individual’s evaluations based on level of knowledge and personal experiences.

Psychic distance with a partner company can vary among members of the same organisation. Evans, et al., (2000) proposed that psychic distance is not based only on external environmental factors but also incorporates mental thought processing that results in perception through individual’s understanding of cultural and business differences. Klein and Roth (1990) categorised the dimensions of distance as “hard” and “soft” where hard distance denotes perceived differences in the broader context, such as legal environment, language, business practices etc (Johanson & Vahlne, 1977), while soft distance refers to the more interpersonal matters of personal traits, social backgrounds, culture, organisational and business structures, and business procedures etc (Cunningham, 1980; Ford, 1984).

Hard distance would have a greater impact on internationalisation decision of the stage theory of IMP model where it is assumed that firms internationalise by moving in stages and entering psychically close countries first to gain knowledge and experience before moving on to the more distant foreign countries. (Leonidou

& Katsikeas, 1996). Soft distance would be related directly to interactions between importers and exporters.

Perceived closeness/distance is said to have an impact on RQ measures. For example, greater perceived distance is said to influence importer-exporter RQ negatively through impacting its attributes such as communication (Bello & Gilliland, 1997) and increased misunderstandings (Shoham, et al., 1997). Perceived distance can also deter the development of cooperation as closeness is not achieved and it is difficult to develop mutual understandings (Stern & Reve, 1980), and commitment to the partner since unfamiliarity results in uncertainty and partners are cautious about committing resources and sharing proprietary information (Holzmüller & Kasper, 1990; Leonidou, et al., 2006).

It is assumed in this study that there is greater psychic distance between UK and Pakistan as compared to the studies that have been conducted so far (c.f. Rosson & Ford, 1980, 1982³³; Håkansson, 1982³⁴; Leonidou, 1989a, 1989b³⁵; Katsikeas & Piercy, 1990a, 1990b³⁶; Kraft & Chung, 1992³⁷; Benito, et al., 1993³⁸; Raven, et al., 1993³⁹; Lee, 1998⁴⁰; Ghymn & Jaffe, 2003⁴¹, Lohtia, et al., 2009⁴² to name a few).

³³ Study of matched dyads of Canadian manufacturers and UK distributors

³⁴ A longitudinal study of buyers-sellers in five European countries

³⁵ Study of Cypriot exporters and British importers

³⁶ Study of Greek exporters and UK importers

³⁷ A study of Korean importers perceptions of US and Japanese industrial goods exporters

³⁸ Study of Norwegian exporters

³⁹ Western exporters of produce exporting to Southeast Asian countries

⁴⁰ Study of Australian exporters and Korean importers

⁴¹ A replicated study of Israeli import managers' decision criteria. Original studies were conducted in Sweden (2001) and Australia (2003)

⁴² Study of US firms in Japan engaged in B2B marketing with Japanese buyers

Pakistan name has, of late, been associated with terrorist activities that have had an impact on its economy. For one, it is considered an unsafe place to travel to by the Home Office in the UK. Companies that rely on export have found that their importers are unable to travel to Pakistan to make purchase decisions and the method of sampling procedures, where samples are sent through mail for approval in order to confirm orders, takes a long time. Time is of essence in today's dynamic markets.

Attitudes of buyers may also have been affected. There are no studies in importer-exporter research that look into this factor. In population economics, Åslund and Rooth (2005) found that in Sweden the 2001 9-11 events affected the attitudes toward immigrants from the Middle-East negatively but labour market for this group was not affected perhaps because business decisions are not based on discrimination.

On the contrary, Ahmed & Hammarstedt (2008) give evidence that people with Arabic/Muslim names were discriminated against in the Swedish housing market. Other studies have found that attitudes of the population towards immigrants are strongly based on perceptions. For example, it is widely believed that immigrants decrease wages and increase crime while there is often no or even opposite evidence for those claims (Butcher & Piehl, 1998). Gautier, et al. (2009) found evidence that segregation among the Dutch and Muslim minorities increased in Amsterdam after the murder of film maker Theo Van Gogh in November 2004

while the fraction of Moroccan/Turkish buyers in type I neighbourhoods⁴³ increased and the fraction of sellers decreased after the murder.

In short, it is assumed that the effects of increased psychic distance due to current events will have an impact on the RQ of the importers and exporters through increased uncertainty, risk, and affective feelings.

2.5.5.4 SUMMARY

Drawing from the literature studied above, we can say that PRQ in an importer-exporter context is a subjective measure of evaluation of performance based on experience of exchange partners with each other and with others in the supply-chain (Holmlund, 2008). This evaluation is an overall cognitive judgement of the tangible and intangible aspects of a relationship and is affected by the environment and atmosphere around the relationship.

The environment and atmosphere are taken into account because it is assumed that the power-dependence, conflict-cooperation, distance-closeness continua will have an impact on the perceptions of RQ since, for example, closeness and cooperation help remove uncertainties and interdependence with balanced power increase trust. Similarly, an unstable interaction environment will increase uncertainty and risk which may have a negative impact on commitment and trust and may lead to opportunism as a strategy for survival. These are some of the assumptions that have a bearing on this research and are reflected upon during the evaluation and analysis of data.

⁴³ Neighbourhoods with 25% or more of ethnic minority from a Muslim country.

2.6 CONCLUSION TO CHAPTER TWO

This chapter built the conceptual underpinnings of the research and outlined a framework of extant research in the areas of IaT, RM, importer-exporter relationships, and RQ. It was noted that though research body has started to develop in the areas of importer-exporter relationships in the context of RM, much needs to be done specifically where diversity of markets is concerned. Review shows that limited research has been done in the dyadic importer-exporter context involving actual parties to the dyad, and in diversity in cross-cultural business relationships. For example, much of the research cited is either on importers alone, or exporters alone, or unmatched dyadic pairs. Aykol, et al. (2012) found that only one tenth out of 212 interorganisational studies⁴⁴ on importer-exporter relationships between 1960-2010 studied the dyadic nature of the relationship.

Aykol et al. (2012) further recommend that researchers should “examine behavioral dimensions of the relationship from a dyadic perspective... In this respect, relationship initiation and development processes in different regional, socio-cultural, and temporal contexts should also be analyzed. In addition, replication of importer-exporter relationship studies in different economic (e.g., developing versus developed countries), cultural (e.g., low versus high context cultures), and industrial (e.g., low technology versus high technology) settings would help to generalize findings”

While globalisation is razing down barriers between countries, international businesses are finding themselves under the challenge of having to deal with

⁴⁴ Aykol’s data search included search engines like ABI Global, EBSCO, Science Direct, and Emerald, and manual search. Final list of articles were from 68 academic journals and edited books.

diversities that they would have previously stepped into cautiously according to the early stages prescribed by the stage theory of internationalization. The very dynamic nature of business today means that decisions need to be taken at a much faster rate and companies may need to go headlong, with little initial experiential knowledge, into territories with much greater psychic distance, instead of the gradual ascent described by the theory of internationalization. These areas are insufficiently discussed in extant research and there is a need to explore these contexts through interpretive inquiry in order to build knowledge that will improve understanding of cultural diversities and the type of business relationships that exist in spite of them.

Chapter three explains the philosophical grounding for carrying out this type of research and offers a detailed explanation of the methodology employed in this research to tackle the issues that are the main objectives of this research.

3.0 PHILOSOPHICAL UNDERPINNINGS AND METHODOLOGY

3.1 INTRODUCTION – CHAPTER THREE

This chapter examines the various concepts of ontology, epistemology, and methodology used in social sciences in order to develop a case for the philosophical underpinnings on which this thesis is based. The methodology used in any research, its research design, and research methods must logically follow, and be in line with, the philosophical assumptions that are set forth at the initial stages of a research inquiry. Because of its unique nature, each philosophical thought dictates its own ontology, epistemology, and methodology and it is imperative that the research design and, consequently the research methods applied, be in congruence with the philosophical stance taken by the researcher.

The first section of this chapter concentrates on the various research paradigms available for a research inquiry and provides the logical reasoning for the second section where a particular research paradigm is chosen for this study. *Paradigms* are patterns or models of behaviour and thought, or “sets of beliefs that guide action” (Guba, 1990, p. 17) of a body of intellectual community and are widely accepted by most of them (Kuhn, 1962). As explained in section 2 of this chapter, a relativistic view is taken for this research where an interpretive inquiry investigates the perceptions of the importers and exporters under study. The third section of the chapter concentrates on the specific methodology used for this research which encompasses qualitative interviews of dyadic pairs of importers

and exporters to gain an understanding about the relationship that exists between them.

3.2 THE ALTERNATIVE INQUIRY PARADIGMS IN SOCIAL SCIENCES

An important task facing every researcher of sociology is to determine and explain his/her assumptions of what constitutes ‘reality’, or ‘what is the nature of being’ (a phenomenon termed as *ontology*). This leads to an understanding by the researcher of what is knowledge or, in other words, what do we know, and how do we know what we know (called *epistemology*). An outcome of this is the way in which the researcher sets about to gain the knowledge he/she seeks or, in other words, the *methodology* he/she uses to gather knowledge.

As his great contribution to understanding the nature of “normal science” Kuhn (1962) coins the word ‘paradigm’ as a comprehensive worldview – held by a significant set of followers – which prescribes the importance of attainment of a certain kind of knowledge with specific theoretical, instrumental, and methodological tools (Rouse, 2003). Over time, philosophers have developed different sets of paradigms pertaining to their understanding of reality, knowledge and the methods employed to acquire it and to conduct research. These paradigms have been differentiated according to assumptions of ontology, epistemology, methodology (Guba, 1990), and *human nature* as identified by Burrell and Morgan (1979) who argue in their debate on sociological paradigms and organisational analysis that such a distinction not only highlights the key assumptions and differences in socio-scientific approaches but also acts as an

important starting point for analysing organisational theory. Their theory summarises the different paradigms of social philosophy by first establishing the two extreme assumptions of each of the four concepts on a continuum and then comparing it with the theory of society to explain the intermediate schools of thoughts that lie between the two extremes. This analytical scheme has been widely accepted in social research, as is evident by its use in organizational studies (for discussion, see Goles & Hirschheim, 2000; Weaver & Gioia, 1994; Shrivastava & Mitroff, 1984). An explanation of the philosophical assumptions on ontology, epistemology, human nature, and methodology is necessary in order to understand the different approaches to social science research and to build a case for the philosophical underpinnings of this thesis.

3.2.1 Foundational Assumptions of Paradigms

Following the theme set in the above paragraphs, this section first offers definitions of the main components of a paradigm, namely ontology, epistemology, human nature, and methodology and then moves on to explain how polarity in assumptions of the components, and the resulting intermediate concepts, are reflected in different schools of thought, or paradigms.

3.2.1.1 ONTOLOGY

Ontology defines the fundamental assumptions about the nature of existence based on how people perceive “reality” or the “knowable” (Guba, 1990). Ontological debates have, on one extreme, reality as a singular, verifiable fact and, on the other, a multiplicity of realities which are inevitably socially constructed. These two extremes have been termed *realism* and *nominalism* respectively. *Realists*

accept universals as mind-independent objects existing independently of any perceiving consciousness. The social world external to individual cognition is independent of the individual and is not created by him/her but exists 'out there'. This imposes the assumption of pre-existence of the social world where the individual is born into it. Not every existing entity is known to the individual and therefore there are thus far no names for the unknown but it does not preclude its existence and remains only to be investigated. This assumption of social world brings it in tune with the natural world (Burrell & Morgan, 1979).

Nominalists, on the other hand, refute the concept of universals, and construe reality by grouping objects together and 'naming' them on the basis of their perceptions of those objects. This is to say that nominalists assume that the social world external to human cognition is a mere structuralisation of reality through assigning names, labels, and concepts to individual perceptions of the social world. The 'names' assigned to these perceptions merely serve as conventional tools for creating an understanding of, and describing, the social world (Burrell & Morgan, 1979). A 'name' or a 'metaphor' for an object, process, concept, or anything else is as 'real' or 'true' as an individual's or society's 'belief' in it. It can be summarised that according to nominalism the reality of social phenomena to be investigated is a product of the individual's mind.

A related but different concept to nominalism, widely accepted as the other extreme of realism, is *relativism* which assumes all truth or reality to be relative as opposed to absolute (Guba, 1990). Consequently, all criteria of judgement in research are relative to the individuals and the situations involved. Knowledge and truth depend on a worldview, which is subjective, therefore all truths are equal:

your ‘truth’ is as true as my ‘truth’. This implies that perceptions of truth and moral values are relative to the person or group holding them. Thus, there are many possible interpretations of any inquiry resulting in different constructions of reality, without a single foundational process for identifying ultimate truth or falsity. This dictates a continuous research process to search for more sophisticated and better informed constructions that unearth the multiple realities which exist in the minds of individuals (Guba, 1990).

3.2.1.2 EPISTEMOLOGY

Epistemology defines the researcher’s perception of the origin, nature, methods of acquisition of, and limits to, human knowledge. It attempts to provide answers to the questions of what is deemed as knowledge, where does it come from, how is it acquired, what people know, and how do they know what they know.

According to Burrell and Morgan’s model (1979) *Anti-positivism* and *Positivism* are taken as the two extremes in epistemology. *Anti-positivists*, hold the view that all investigation is *subjective* since perception of reality varies with individuals, and “truth” is not conformity to objective reality but rather a consensus arrived at through informed and sophisticated constructions. All observations are theory- and value-laden. ‘Facts’ collected and arrived at during investigation only hold their meaning within the value framework used and therefore cannot be treated as objective assessment of propositions. Phenomena are context-based and can only be understood within the context studied which renders them un-generalisable to other research settings since a holistic view of the context is necessary to appreciate them (Guba & Lincoln, 1989).

Positivism, on the other hand, seeks to “explain and predict what happens in the social world by searching for regularities and causal relationships between its constituent elements” (Burrell & Morgan, 1979, p. 5). The positivist believes that it is possible to observe the world in a natural objective manner, and practices as an *objectivist* with the assumption that reality exists and truth can be unearthed through investigation. A positivist directs questions to nature in the hope of finding true answers that appear elusive and need to be searched *scientifically*. In this way social world is akin to a natural world where scientific knowledge is acquired by logically deducing hypotheses built on a set of carefully designed and operationally defined concepts and variables and then testing for the truth (or falsification) of those hypotheses to arrive at universal laws that can be generalised to other contexts. Thus, genuine knowledge is only that which can be verified and is based directly on experience.

3.2.1.3 HUMAN NATURE

Human nature here involves the assumption of similarity over a period of time, or the range of human behaviour that remains constant over long periods of time and across very different cultural contexts. According to Burrell and Morgan (1979) “this debate revolves around the issue of what model of man is reflected in any given social-scientific theory” (p. 6). Thus, it sets forward assumptions of human behaviour under the influence of his environment, or the relationship between man and society. It is important to understand the nature of human actions when studying social sciences because it improves our understanding of why people do what they do and social science researchers must adopt a stance “implicitly or

explicitly” to assign meanings to human action and to understand and explain the findings of their investigation.

In an epistemological *objectivity-subjectivity* debate, with the two taken as extremes, human action is regarded by the *objectivist* as governed by stimuli in the environment where man simply responds to his surroundings and by the *subjectivist* as an outcome of the culture man is a part of and the meanings assigned to actions and values by that culture.

Burrell and Morgan (1979) set forward two extremes of human nature. On the one extreme they see man as a *voluntarist* with a completely free will and able to make decisions independently of the society. In this regard, man is in complete control of his environment and is not dictated by it. On the other extreme, man is seen as a *determinist* or *responder* whose actions are determined completely by the stimuli in the environment and the various stimuli he encounters condition his responses so that actions become predictable, and a pattern of causal relationships can be identified. Therefore, man is seen as a slave to the environment.

3.2.1.4 METHODOLOGY

Methodology, or a set of procedures or methods adopted to conduct research, is governed strongly by the researcher’s ontological and epistemological views. Researchers must decide how they will go about collecting information to find the solutions they seek to their research problem(s).

Burrell and Morgan (1979) present the *ideographic-nomothetic theory* which provides two extremes on the continuum for selecting a methodology for research in social science. The *ideographic* approach is based on the ontological

assumption that reality is a socially constructed product of human mind and therefore requires a first-hand knowledge of the researched in order to gain an insight into his/her perceptions of reality. The focus of the investigation is on individuals in particular circumstances. Thus a researcher must get close to the subject or become a part of the situation and not only explore its background and life history in detail but also allow the subject to reveal its 'inner self' in order to build a holistic picture of the subject and its context and understand the 'relative reality'.

Nomothetic approach, on the other hand, follows the ontological *realism* assumption that the social world, like the natural world, is concrete and independent of human consciousness and therefore investigation must follow the scientific methods of research where hypotheses are set and rigorous tests are conducted to search for verifiable and generalisable laws that explain pre-existing but unknown 'truths'.

3.2.2 Overview of Resulting Paradigms

The above discussion on the definitions of the basic assumptions about social paradigms is summarized under the two extremes of the *objectivist* and *subjectivist* view in Table 3-1. These are, however, the extreme or polar schools of thought, from the positivistic view of reality as being a hard concrete fact with man responding to nature in "predictable and determinate" ways, to the subjectivistic view of reality as being only a construction of human mind where man is free to shape the world "in a meaningful intentional form". Within these extremes lies the transition of worldviews or epistemic shifts, which have flowed

TABLE 3-2: NETWORK OF BASIC ASSUMPTIONS CHARACTERISING THE SUBJECTIVE-OBJECTIVE DEBATE WITHIN SOCIAL SCIENCE

	Subjectivist Approaches to Social Science			Objectivist approaches to social science		
	← VI	V	IV	III	II	I →
Core Ontological Assumptions	Reality as a projection of human imagination	Reality as a social construction	Reality as a realm of symbolic discourse	Reality as a contextual field of information	Reality as a concrete process	Reality as a concrete structure
Assumptions about Human Nature	Man as pure spirit, consciousness, being	Man as a social constructor; the symbol creator	Man as an actor; the symbol user	Man as an information processor	Man as an adaptor	Man as a responder
Basic Epistemological Stance	To obtain phenomenological insights; revelation	To understand how social reality is created	To understand patterns of symbolic discourse	To map contexts	To study systems, process, change	To construct a positivist science
Some Favoured Metaphors	Transcendental	Language game, text, accomplishment	Theatre, culture	Cybernetic	Organism	Machine
Research Methods	Phenomenology Exploration of pure subjectivity	Ethno-methodology Hermeneutics Case studies	Social action theory Symbolic analysis Case studies	Cybernetics Contextual analysis of Gestalten Case studies	Open systems theory Historical analysis Case studies	Lab experiments Surveys Social learning theory

Adapted from Morgan & Smircich (1980)

3.3 PHILOSOPHICAL GROUNDING OF THE RESEARCH

The discussion so far has highlighted the key constituents of philosophical understandings in different epistemic views and, based on these, a case for the philosophical underpinnings of this research is built in this section. As shown in Table 3-2, the fifth column is the selected worldview used for this research. An explanation of this follows below. Firstly, definitions of the epistemic concepts for the study are highlighted and then a case for methodology is presented. Since

methodology is a reflection of the ontological and epistemological underpinnings of a research study, it is explained in depth in a later section of this chapter.

3.3.1 Ontology – Reality as a Social Construction

Reality is taken as a socially-constructed *relativistic* phenomenon of human interactions in that man constructs his own reality (constructivism) within the contexts of history, culture, learning, and experiences (constructionism) – concepts that are all socially constructed by man himself and those before him in time and space⁴⁵. This is not to refute that there also exists a reality that is of a higher order, for example the existence of man himself or his capacity (or incapacity) to think and construct reality based on his given neuronal and functional abilities (see Collins [1998] in Delanty & Strydom, 2003). The constructed ‘reality’ appears to man to be as real as physical reality.

Man’s construction of reality as being subjective, together with the presence of a higher order of reality as being given can be explained with an example. The name given to a concept, for example ‘human’, or ‘water’, is a socially constructed reality that has come to be accepted universally but the existence of this concept in time and space, the fact that it is there to be ‘named’, in other words its very presence as accepted by majority, is a reality that is considerable. The fact remains that to say that a thing is a ‘human’ or ‘water’ is constructed reality based on the fact that culture has subscribed its attributes and image that name. In his article “*The Sociologico Cogito*” written in 1998, Collins (in Delanty

⁴⁵ Constructionism points to culture’s influence in providing collective meanings constructed through time (Crotty, 1998). Therefore, constructivism is unique individual perception of reality and constructionism is cultural formation of meaning and transmission of it to society such that it influences their perceptions

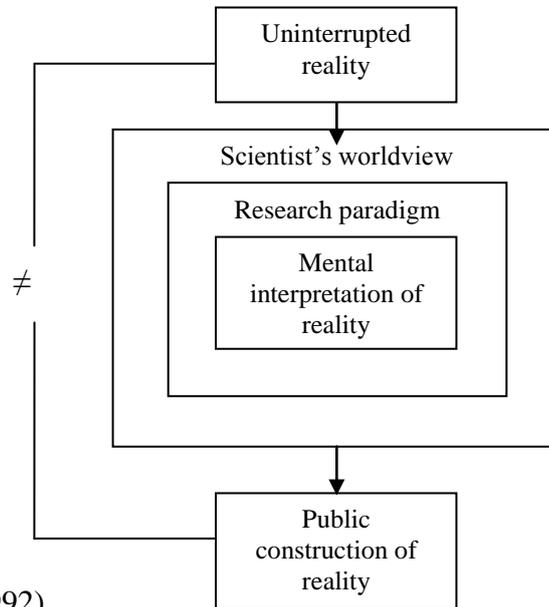
& Strydom, 2003) establishes the existence of other people, thinking, time, and space in the world as realities⁴⁶.

In the philosophy of social sciences, social reality can be divided between those social facts that ‘can be constructed’ and those that ‘cannot be constructed’ (apart from *physicalism*, or the physical natural presence of objects – which has become an obsolete concept in subjective social inquiry). Social facts that are constructed are mainly interactive, where man interacts with nature, and his context, to create a meaningful world. Social facts that cannot be constructed are cognitive in nature like “mental, intentional, or reflexive properties which go together with functional and physical behaviours, such as practical desires, practical beliefs, practical norms and values, or, more generally, what we can call ‘intrinsic reasons of actions’” (Pharo, 2007, p. 484).

Pharo points out that although a subject or society constructs its own desires, beliefs, norms, and values but, once constructed, their usage and inclusion in a particular action makes them intrinsic in nature, incapable of being reconstructed at will. Thus, they become part of the individual’s, or society’s, reality at the time. Reality is thus both subjective, as in man’s relation with nature, abstract concepts, metaphors, and socially constructed society, and objective as with man’s being, the ground he walks on, his capacity to think and construct within the parameters of his context and ability, and the intrinsic properties that have come from his construction and have become a part of his being.

⁴⁶ Collins (1998) asserts that acceptance of language and the meanings associated with word, symbols, dialogue are proofs in themselves that time exists to create history of language and symbols; cognitive thinking takes place, since to say we don’t think is to produce the thought that we are not thinking; people exist, both in the past, as proof of creation of language, and present with whom communication takes place; societies exist, and the proof is development of different languages and dialogues around the world which also proves the existence of space.

FIGURE 3-1: RELATIVISTIC/CONSTRUCTIONIST VIEW OF REALITY



Source (Peter, 1992)

As discussed in Chapter 1 the question put forward for this research leads to a quest for understanding the perceptions of relationships between importers and exporters in dyads in an international business context. This calls for an ontological *relativistic* stance as realities “exist in the form of multiple mental constructions, socially and experientially based, local and specific, dependent for their form and content on the persons who hold them” (Guba, 1990, p. 27).

From a social constructivist point of view, importers from UK will have different experiences and perceptions of their relationship as compared to exporters from Pakistan due to the intrinsic unconstructible social ‘facts’ that are a product of past learning through history, culture, and society. For the purpose of this research these intrinsic social ‘facts’ are assumed as given and defined to exhibit researcher’s interpretation of the context of the researched and the researcher. For example, it has been established that culture, a product of human construction,

plays an important role in shaping beliefs, moral standards, routes to acquisition of happiness, ethics, power structures, achievement needs, social needs, and need for future stability, among others. Culture then is taken as a given context for the research in the comparison of perceptions of UK importers' and Pakistani exporters' relationships. Society, another constructed concept by man and an outcome of history, culture, and progress, shapes the standards for ways of life, legal structure, social and physical infrastructures, interactions, communication, cohesiveness and the like and has an influence on the interpretation of interactions and the resultant perceptions.

3.3.2 Epistemology – Social Construction of Knowledge

Knowledge is based on historical, cultural, and linguistic contexts in a 'reality' that is largely constructed by man himself. Thus knowledge obtained through research is *subjectivistic* in that research takes place in a context, is about subjects who create their own sense of 'reality' of their environment, and is conducted by a person who herself has her own context of beliefs, values, and concepts.

The term 'context' in social research denotes the presence of two types of contexts which are both structured socially: *the context of investigation* and *the context of explanation*. The context of investigation implies the social and intellectual context of the researcher herself, whereas the context of explanation defines the socially constructed 'reality' to be investigated; specifically the aspect of a social action and the particularities of the context used to explain the action. Knowledge gained by the research is thus subject to 'interference' or contamination by the researcher in the sense that it is influenced by the researcher's terms of reference

and context, and care needs to be taken in putting forth the explanations or results of the study through methodology and methods of information gathering, and during interpretation, analysis, and evaluation.

Epistemological *subjectivity* points towards the subjective nature of the research setting and the resultant multiplicity of interpretations of knowledge thus acquired, under the value-judgements of the participants, or subjects, and the readers of the research, in addition to the researcher herself. This thesis is *interpretive* in nature and attempts to draw knowledge, through in-depth interviews, from the subjects of the research within the given contexts of the intrinsic learning and standpoints of variation in organisational, cultural, social, societal, and linguistic backgrounds of both the researched and the researcher.

The inquiry in this research is based on subjective evaluations of perceptions or feelings of UK importers and Pakistani exporters and the ontological relativistic position taken for this research is based on the assumption that multiple interpretations exist in understanding of perceptions as disclosed through language and actions. Epistemologically, these are subject to different meanings assigned to them by different interpreters because of differences in their ‘socially constructed intrinsic contexts’ built through the ‘*evolutionary learning processes*’ (that build the structure of the forms of our life), and the ‘*cognitive learning processes*’ (that evolve through personal experience and dealings with environment). For the purpose of the research, the assumption of socially constructed intrinsic contexts is accepted as given, and no attempt is made to inquire into their presence or source and they are used as a basis for evaluation of differences, if any, in the perceptions brought forward. The emphasis is on understanding and comparing

perceptions which are subjective in nature, value-laden, differ from individual to individual, and affect the way in which trade is carried out.

3.3.3 Human Nature – Man as a Creator of Reality

Humans are responsible for the creation of their own reality by shaping the world within the context of their cognitive abilities and the intrinsic knowledge acquired through history, culture, society, interactions, learning processes, and the immediate environment. Since reality is subjectively relative, all ‘given facts’ and concepts have been the creation of humans themselves. This is somewhat different from the voluntarist nature of man (identified by Burrell and Morgan and described above) in that man does have a free will to act but within the contextual boundaries that have evolved out of his learning over time through his interaction with his culture, society, and environment.

Relating this to the current study, the importers in UK and the exporters in Pakistan are humans who build perceptions of reality of their relationships with each other on the basis of their history of past dealings with the business partners of the dyad, and with other businesses they have relations with, within the international context and within the context of their learned experiences engrained in them through cultural, historical, and societal beliefs. Individual perceptions differ and added to this is the fact that the subjects of the research come from different cultural, social, and environmental backgrounds and bring with them the differences that have become intrinsic to their understanding and affect their perceptions. Same can be said for the researcher who is of Pakistani descent. Thus presuppositions and perceptions of the researcher are present and have been taken

into account throughout the analysis in order to maintain as much objectivity as is possible in a subjective interpretive inquiry.

3.3.4 Methodology – Interpretive, Qualitative

An ontologically relativistic and epistemologically subjectivist inquiry makes redundant empiricist forms of investigation and calls for a methodology based on understanding and interpreting language to understand meaning and assimilate knowledge. Empiricist studies of the type used in natural sciences are adopted by positivist social scientists in accordance with their belief of a social world as a concrete object where law-like relations can be studied objectively through deductive scientific methods to prove causal relationships between elements or subjects of study.

Interpretive investigation, on the other hand, assumes an open-systems kind of world which is largely influenced by man, the result of which is subjectivity in actions and understanding, multiple interpretations of reality, and constant change. Encapsulating such phenomena in a laboratory to conduct rigorous experiments or studying static snapshot moments of the evolving world does not provide a true picture of those phenomena. What is required is an examination of individual instances or subjects in depth to understand how reality is created. Different methods and approaches are required to study such phenomena and in most cases a qualitative approach is used, though it does not completely rule out the use of quantitative analysis. For instance, quantitative analysis may be used to record the frequency of occurrence of a phenomenon under investigation in an attempt to establish its generalisability. But the best way to understand human interpretations

and to answer the questions of ‘why’ we do what we do is to get personally involved and allow for the person to open up and provide his/her side of the picture in-depth.

Multiple strategies involving both qualitative and quantitative analysis are not uncommon in areas of marketing, organisational studies, management, consumer research, human resource management, and, to some extent, even other social sciences like history, psychology, and sociology, to name a few. The selection between qualitative and quantitative methods is not of prime importance at the start as this follows logically from what the researcher sets out to achieve and what her epistemological groundings are. The points of differences to note are that while quantitative methods offer generalisable results through breadth in investigation and objective scientific reasoning qualitative methods aim towards specificity of results through limiting fieldwork to specific phenomena and searching in-depth to uncover especially latent information which does not lend itself to direct investigation or questioning.

This research – which examines I-E relationships within the IaT and RM perspectives – adopts an *interpretive* and *qualitative* method based on *iterative in-depth interviews* to study the perceptions of importers and exporters about their business partners and their business practices in a dyad. According to Patton “the major way in which qualitative researchers seek to understand the perceptions, feelings, and knowledge of people is through in-depth intensive interviewing” (2002, p. 21). Perceptions are individualistic in nature as they vary from person to person within and across nations and cannot be assumed to be similar across a trading business context. This research falls in the category of *ideographic*

research, which proposes contextual research focusing on individuals in particular circumstances. According to Bernard (2000), “Idiographic theories explain a lot about a little; nomothetic theories explain less about a lot” (p. 76). As the subject of methodology warrants special attention in an investigative inquiry it is discussed in more detail in the following section.

3.4 METHODOLOGY OF THE RESEARCH

It is important to understand that methodology is not just deciding about research designs and methods but an all-encompassing concept involving all the steps taken from the formulating of research questions to the presentation of analysis and conclusions of research. The relationships between research questions and literature review, literature review and fieldwork, fieldwork and analysis, analysis and conclusions are all methodological issues (Clough & Nutbrown, 2003).

It will be appropriate here to distinguish between research methodology, research design, and research method. Whereas research methodology embraces the ontological and epistemological orientation of the research study, research method describes the actual techniques and tools employed for data assimilation and analysis based on that orientation. Research design lays out the structure and format of the research process as a guideline or framework for conducting research and collecting and analysing data (Bryman, 1989).

This section will first develop a case for the interpretive method used for the research and then explain the research design formulation and the methods used for conducting fieldwork and data analysis.

3.4.1 Research Method – Interpretive

This study is an interpretive inquiry on the perceptions of importers and exporters about their trade relationship. An interpretive mode of enquiry is suggested “when we are interested in the worldviews of members of a certain social group..... [or when] no or virtually no research has been done [on the topic] in the past” and for topics that are too sensitive to be inquired about openly (Bryman, 2008, p. 26). Interpretive research methods have been recommended for building understandings about perceptions in disciplines and fields such as psychology (Triandis, 1984), sociology (Denzin & Lincoln, 1994), international business-to-business marketing (Johnston, et al., 1999), marketing (Perry, 2001), and international business relationships (Dul & Hak, 2008) to name a few.

Interpretive research does not offer predetermined sets of definitions for dependent and independent variables, as does positivistic research, but attempts to assign meanings to phenomena as they unfold through the research process. A positivistic inquiry starts with a sound grounding in literature from where well-established sets of independent and dependent variables are identified and attempt is made to establish causal links among them through rigorous statistical techniques for quantitative studies and through objective value-free qualitative research. The role of *a priori* literature grounding in interpretive research has been subject to contradictions. For example, Glaser and Strauss (1967) and Strauss and Corbin (1998) posit that it is the data collected through the research itself that should be treated as the starting point to build understanding of the study instead of the researcher building presuppositions and propositions through literature review.

On the other hand, Yin (2009) and Eisenhardt (1989) propose specification of *a priori* constructs through literature review for an improved grounding of construct measures. This research has adopted a middle ground by using literature review to build an understanding of contexts, theories, and constructs within B2B and international marketing instead of setting out propositions for testing. The literature thus provides a framework for the research-setting and builds the boundaries of contextual understanding of the researcher within which the researcher sets out to conduct research.

That is to say that literature review did not result in setting forth of propositions, nor did it confine exploration to the boundaries thus identified, but provided the existent knowledge framework around which the research was to be conducted. This strategy enabled the researcher to capture the views of respondents without predetermining their views and limiting their responses to a set of questionnaire categories. However, it was necessary to revisit literature to compare with the findings of analysis and build similarities and differences thereof.

The assumption behind interpretive studies is that people create their own subjective and intersubjective meanings of interactions with the world around them and thus the researcher's task is to understand the phenomenon under study by interpreting the meanings that people assign to them. In the context of this research, the researcher's task is to make sense of the way respondents understand the relationships between the trading partners, that is, to interpret the meanings respondents assign to their actions and those of their trading partners. Interpretation of this kind is value-laden and subject to researcher's own

understanding because researcher, and not the questionnaire, is the *instrument* in interpretive research (Guba & Lincoln, 1989).

Subjectivity, then, can distort findings and depends, to a great extent, on the skill, competence, and rigor of the researcher (Patton, 2002). Guba and Lincoln (1981) suggest that this “loss in rigour is more than offset by flexibility, insight, and ability to build on tacit knowledge that is the peculiar province of the human instrument” (p. 113). Interpretive research makes no attempt to generalise its findings; rather, what is required is to build a deeper understanding of the phenomenon under study in its context and natural setting, and form a structure which may be applied to other similar settings. It is therefore imperative that emerging concepts be specified in their context and setting so that generalisability under similar settings and definitions may be achieved in replicative confirmatory research. To ensure emergence of concepts through data, the researcher took care not to impose her prior knowledge about constructs and theories on the interviewees and allowed topics to emerge as interviews commenced.

In summary, the specific research methods employed in this study, or the actual techniques and tools used, are *qualitative interpretive study* design incorporating eighteen in-depth iterative interviews in two industries where three import-export dyads were examined in the leather garment industry and six dyads were interviewed in the textile industry due to its breakdown into important categories in terms of trade (as explained later). This results in a total of nine dyads, with a total of thirty-six in-depth interviews conducted in all. Individual importers and exporters were taken as the units of analysis and an understanding of the

relationships was built on their analysis. A detailed explanation of the adopted design follows in the next section.

3.4.2 Research Design

A research design, quoting Yin (2009), is a detailed outline of the steps taken to convert an idea into a research of significance by explicitly defining what questions are to be studied; what is the relevant primary and secondary data for

TABLE 3-3: DESIGN ISSUES AND OPTIONS

Issues	Design options and concerns	Selected strategies
Primary purpose of study	Basic research, applied research, summative evaluation formative evaluation, action research	Basic, descriptive research
Focus of study	Breadth versus depth trade-offs	Depth
Units of analysis	Individuals, groups, programme components, whole programme, organizations, communities, critical incidents, time periods, etc.	Importers from UK and exporters from Pakistan in a dyadic relationship
Sampling strategy/strategies	Purposeful sampling, probability sampling. Variations in sample size – single case to a generalisable sample	Purposeful sampling Replicative sampling
Type of data	Qualitative, quantitative, or both	Qualitative
Degree of control	Naturalistic inquiry (no control), experimental design, quasi-experimental	Some control through interview guide
Analytical approach(es)	Inductive, deductive. Content or thematic analysis, statistical analysis, combinations	Inductive; discourse and thematic analysis
Validity and confidence	Triangulation options, multiple data sources, multiple methods, multiple perspectives, multiple investigators	Multiple data sources Multiple perspectives
Time issues	Long-term fieldwork, rapid reconnaissance, exploratory phase to confirmatory phase, fixed times versus open timelines	Within the four year period of PhD thesis
Logistics	Gaining entry to the setting, access to people and records, contracts, training, endurance	Personal contacts Confidentiality contracts
Ethical issues	Informed consent, protection of human subjects, reactivity, presentation of self	Informed consent
Available resources cost of study	Personnel, supplies, data collection, materials, analysis time and costs, reporting/publishing costs	Personal and University of Warwick's resources

(Source: Patton 2002, p.254)

the study; and how will this data be analysed. A detailed research design chalked out at the start of a research project directs the research in the intended path and avoids digression in later stages such as analysis and interpretation.

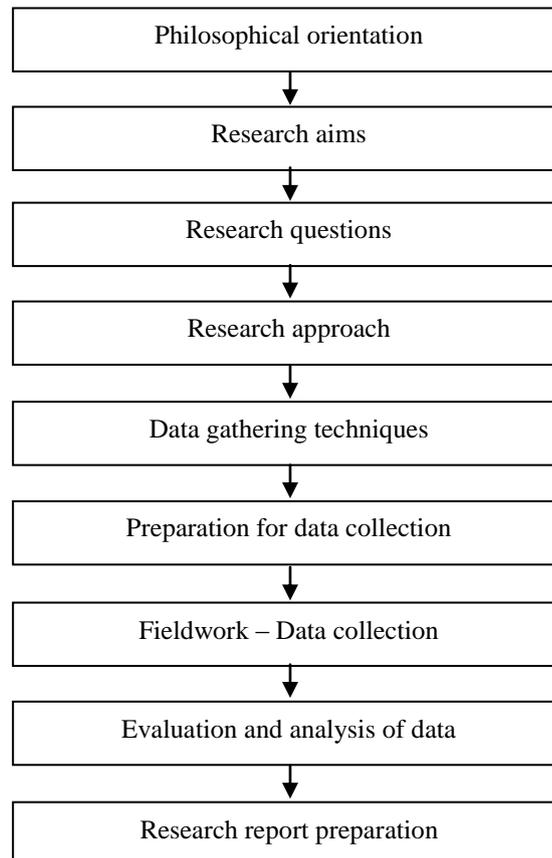
Patton (2002) offers some helpful tips regarding the issues to be considered while formulating the research design. Table 3-3 is an adapted version of those tips and provides an outline, in the extreme right shaded column, of the basic design considerations of this study which will be elaborated upon as the design is built.

This research started with the simple design proposed by many authors (cf Eisenhardt, 1989; Patton, 2002; Yin, 2009; Gill & Johnson, 2002 etc) who offer a common series of steps that should be taken to ensure a valid and sound research process is adapted. Figure 3-2 outlines the steps which are common in all types of research. Each of these steps is complex in that it involves sub-steps that need to be followed carefully to ensure quality and credibility of the research. The first six steps from establishing a philosophical grounding to decisions about the type of data analysis techniques to be used constitute the *conceptual design* as they lay down the groundwork for the actual data collection and analysis, or the *technical design* portion of the research design (Verschuren, 2003).

Although it is convenient to present a sequential research process as a guideline for conducting research it is in no way fixed, contrary to positivistic research, since an interpretive research of this kind requires an ongoing process, especially when little secondary data exists to support the research, and generation of data is part of the research itself. For example, the research problem is a broad statement and does not lend itself to definite hypothesis building. In order to come up with

credible answers, the researcher had to move through data collection, analysis, literature review, and more data collection, and analysis, and literature review till there appeared a point of information saturation.

FIGURE 3-2: BASIC RESEARCH DESIGN



In accordance with the framework presented in the first step, philosophical orientation, has been explained in depth in the beginning of this chapter. The remainder of this chapter will explain the research design, from step two onwards, adopted for this study.

3.4.2.1 RESEARCH AIMS

The concept for this research was an outcome of the researcher's involvement with the Institute of Business Administration (IBA), University of Karachi, where she was a lecturer and then an Assistant Professor. The researcher taught

marketing and research methods courses at IBA and was always intrigued about the research conducted in B2B and cross-cultural relationships and its applicability to Pakistan's context. Literature search for the kind of relationship that existed with Pakistan and the Western world bore no fruit.

As explained in the literature review, existent research on international marketing relationships and international B2B marketing focused on trade between western cultures, with very little research from Africa, Far East and South Asia. There was some research focusing on India as well but it was insufficient to build a framework for perceptual trade relationships and according to the researcher's knowledge and experience India and Pakistan were not as similar as it might be assumed, as neither were Pakistan and the Middle Eastern countries.

These reviews also pointed to the fact that scarce research was conducted through inductive methods of international markets which give greater insights into perceptions and are the backbone of theory building. Of the research conducted there was very little evidence based on comparisons between actual dyads in a business relationship. There was a need to add to knowledge by covering more diverse cultures and expanding the theories on international trade. Following objectives were thus set for the research:

1. How do the importers and exporters engaged in trade in an international setting construct the reality of their relationships; that is, what are the perceptions of 'truth' about relationships by importers from a developed country and exporters from a newly developing country, specifically from UK and Pakistan respectively?

2. What are the consequences of their perceptions on their behaviour and their trade relationships?

In identifying the aims of the research an attempt was made to keep the holistic picture of the case in mind rather than to focus only on the phenomenon of perceptions alone. That is why it was deemed necessary to understand the relationships as whole, together with their strengths and weaknesses, rather than just the perceptions of importers and exporters about each other (Stake, 1995). Once the objectives of the research were identified the next logical step was to convert them into questions that the research would attempt to answer and to design a research process.

3.4.2.2 RESEARCH QUESTIONS

With the establishment of the aims of the research, the issue then was to frame broad research questions that would achieve the objective of the research. Though literature review provided general concepts that were studied through time and served as comparison with findings, it was insufficient in the beginning in light of the unique context of the study but it served to later compare it against the findings. That is to say that first an *emic* approach was adopted to understand issues for each unit of analysis and then, through an *etic* approach, comparisons were made across dyads and then across industries to evaluate similarities and differences across the two cultures and finally results were compared with literature review (Stake, 1995). Therefore, research questions were broad to avoid specificity and allow for flexibility in data collection. No attempt was made to establish causal relationships from the start of the research and it was left to the

data to allow the specific contextual relationships to emerge (Strauss & Corbin, 1998).

In order to understand perceptions it was deemed necessary to understand the history of the relationship beginning from the inception of trade between the two dyads. An insight into who made the first approach and how, and a walk through the history of the relationship set the trend for understanding the kind of relationship that existed. To establish the factors that facilitated/inhibited trade between the dyads, it was important to understand what made the informants decide to continue trade with their business counterparts in order to establish the strengths and weaknesses of the relationships. Following general and broad questions were therefore put forward:

1. How did interactions/relationships initialise between the buyers and sellers, and how did business relations develop over time?
2. How do firms in the dyad decide to form a business relationship with one organization over another? In other words, how do firms make a choice from among the various available organizations?
3. Why do firms continue to stay in a particular relationship?
4. What are the factors that facilitate organizational relationships between the dyad?
5. What are the factors that inhibit organizational relationships?
6. How do firms in the dyad perceive their relationships with their business partners and their business practices and products?

With these broad questions in mind a case for the appropriate methods of data collection and analysis was built. As explained later, an exploratory descriptive interpretive study method was used.

3.4.2.3 RESEARCH APPROACH

The philosophical underpinnings of the study, its methodology, and the nature of the research questions directed towards a qualitative method of inquiry which is deemed most suitable for capturing the rich diversity and complexity that is likely to be present when comparing different companies within, and especially across, different cultures (Malhotra, et al., 1996). As stated earlier, a qualitative interpretive method through in-depth interviews was found most suitable for cross-cultural studies (Bryman, 1989).

Qualitative interpretive research is recommended in B2B and international marketing where the context and phenomenon to be studied are taken in concert and there is no desire to separate the phenomenon from the context (Johnston, et al., 1999). Rather, the phenomenon within its context is of major interest to the research. This logic serves the purpose of this study which is based on the inference of differences in perceptions of the partners in a dyad in the context of cross-cultural B2B relationships. The clear epistemological standing of this research as an interpretivistic approach defines reality as socially constructed by people and shaped by linguistic and cultural constructs where ‘truth’ has no objective reality apart from its being constructed and accepted as such through consensus of the informed constructors; ‘facts’ are facts only within their value framework; and therefore phenomena can only be comprehended within their context to grasp their true meaning.

The above mentioned issue relates to the concept of generalisability as understood in positivistic research. Generalisability in positivistic research means the ability of the findings from a sample to predict the behaviour of the population. Qualitative researchers caution against such generalisability and point out that it is not the aim of qualitative research to develop cause-and-effect relationships and extrapolate findings on the population (Denzin & Lincoln, 1994; Guba & Lincoln, 1981; Patton, 2002). Rather, qualitative research is meant to provide detailed accounts of understanding of the phenomena in their contextual setting through rich detailed descriptions and the results thus gained contribute valuable knowledge in their own right.

Generalisability may be achieved partially for similar settings but this is not to say that it is allowed to become the main focus of the research. The focus of interpretive research remains on understanding a single phenomenon in-depth in its contextual setting and through a small relevant sample. Indeed, generalisation in a subjective world, where reality is socially created and holds different meanings to different people depending on their unique perspectives and ways of understanding, is regarded with suspicion. For if everyone has his/her own individual perspective and understanding of the world then how can sample's perceptions be generalised on to the population.

Similarly, this research does not aim at generalising findings but looks for a deeper understanding of the relationship between the trading partners of a developed and a newly developing country with distinct cultural differences. The aim is to “offer perspective and encourage dialogue among perspectives rather than aiming at singular truth and linear predictions” (Patton, 2002, p. 546).

Other issues of quality in qualitative research centre about validity, reliability, and objectivity as understood in the context of positivistic research and as described in the following manner. Drawing from Bryman (1989), *validity* refers to the veracity of the findings of a research and in a positivistic inquiry it is established through *measurement validity*⁴⁷ (the ability of an indicator devised to measure a concept to measure it accurately), *internal validity* (credibility of causal relationships), and *external validity* (generalisability). *Reliability* establishes whether the concepts defined in the research are consistent and hold true over time and is a very close kin to the concept of *replicability* of research in other settings.

Lastly, *objectivity* refers to the value-free involvement of the researcher who distances himself/herself from the subjects in order to maintain a neutral stance in analysis and evaluation of findings.

As is apparent from the definitions, application of these criteria to interpretive research is impractical, if not impossible, since, as mentioned above, generalisability and causal relationships are not the concern of interpretivistic research and neither is it possible for the researcher to distance himself/herself from the subject as true meaning of the subject's constructed worldview can only be grasped through interaction.

Some qualitative researchers have, therefore, suggested that different criteria be used to judge the quality of qualitative research. Lincoln & Guba (1985) set forth

⁴⁷ *Measurement validity* applies to quantitative research and is measured through *face validity* (apparently accuracy of concept definition), *concurrent validity* (the degree to which two simultaneous tests applied to a measure present correlating results), *predictive validity* (the predictive properties of a test measure; correlating a future criterion measure with the measure under study), *construct validity* (the ability of a measure to accurately represent a construct and result in an observation distinct from that produced by other the measure of other constructs), and *convergent validity* (convergence or correlation among different measures of the same variable).

the following criteria for evaluating qualitative inquiry through assessing their *trustworthiness* and *authenticity*.

Trustworthiness: The concept of trustworthiness relates to the rigour with which research is conducted. The subjective nature of qualitative research is liable to suspicion from the research community if not subjected to some tests of trustworthiness. According to Lincoln and Guba (1985), this is achieved through establishing the credibility, transferability, dependability, and confirmability of the research. *Credibility* substitutes for internal validity of quantitative methods and involves the soundness of presenting the constructions of respondents' worldviews from among the multiple realities that exist in the social world.

Methods of achieving credibility are following good research practices, peer reviews, triangulation, and presenting findings to the interviewees to collate their understanding with what the researcher understood. For this research, interviewees were presented with transcriptions and then the written analysis of their interviews and asked to clarify/correct any ideas they found misunderstood or misleading and corrections were made accordingly. Expert opinion was also sought from the director of research of an organisation in Pakistan on clarity of definitions of the concepts.

Transferability, or what the positivists would call external validity, refers to the applicability of concepts to other contexts, or to the same context at a different time. Since interpretive research is concerned with depth rather than breadth, with heavy emphasis on the contextual setting of the research, transferability of the findings is left to the readers by offering them thick descriptions of the context,

data, analysis, and findings so that they may decide about the applicability of findings to other settings. An attempt has been made in this study to offer thick descriptions and explicit coding schemes that would enable future users to decide about adapting the concepts to their research contexts.

The next issue, *dependability*, which is parallel to reliability in quantitative research, results from presenting a systematic process of research that shows consistency and stability and establishes an 'auditing' process. This implies maintaining complete records of the entire process for confirmation of adopting a systemic and thorough process. For this study, complete recordings of interviews, their transcriptions, field notes, and secondary data have been maintained for peer auditing. The last criterion for trustworthiness, *confirmability*, which corresponds to objectivity in positivistic research, relates to the logical and unbiased interpretations of the analysis in such a way that the findings are the most logical and reasonable ones possible.

This study tried to achieve confirmability by offering multiple interpretations with their merits and demerits to make a case for logical reasoning. In terms of maintaining an unbiased stance towards the different cultural groups of the study, an asset to the researcher has been her multi-cultural background which has resulted in an acceptance of multitude of opinions with deference. The researcher spent her childhood in Libya and did her entire schooling from Malta where she was exposed to a highly multi-cultural community of boarders who remain her best friends to this day. Then she graduated from, and worked in, Pakistan and has been in the UK for the past four years. A negative aspect of this could be the assumption that I know both cultures well and realising this, attempt has been

made to avoid presuppositions or jumping to conclusions but to search for evidence in data and derive multiple interpretations to arrive at a logical conclusion.

Authenticity: Authenticity refers to the “reflexive consciousness about one’s own perspective, appreciation for the perspectives of others, and fairness in depicting constructions in the values that undergrid them” (Patton, 2002, p. 546). The criteria for achieving authenticity outlined by Lincoln and Guba (1985), relate to *fairness* in representing respondents’ viewpoints, improved understanding by the respondents of their social setting (*ontological authenticity*) and the perspectives of other social actors (*educative authenticity*), motivating respondents to change their circumstances (*catalytic authenticity*), and providing guidelines for doing so (*tactical authenticity*).

As is apparent, Lincoln and Guba’s criteria for achieving authenticity is best suited to action research where bringing about change is the focus of the study (Bryman, 1989). Fairness, however, is applicable to all qualitative research and, in this research, is maintained, according to Patton (2002), through constant reflection on researcher’s own perspective and the perspectives of the subjects so that a bias towards the favourite or most likeable interpretations is kept in check.

From the above discussion on research approach, it is apparent that interpretive research requires a clear understanding of the context in order to study and understand research phenomena in their specific setting. The next section lays out the research setting where the broader context of the study is the cross-cultural trading environment which remains the focal point of the research. Within this

context are individual industries and their contexts together with the dyads of importers and exporters.

3.4.2.3.1 RESEARCH SETTING

In order to set the context of the study, four exploratory interviews were conducted: first of the director of TDAP⁴⁸, second of the head of International Trade Division of BCC⁴⁹, third of the head of Pakistan High Commission's Trade Development Office, and fourth of an independent exporter not involved with manufacturing. A background on the trade between the two nations was built on the basis of these interviews and through literature search of TDAP library, academic literature on international trade, news and magazine articles and the statistical data available from such bodies as ITC⁵⁰, COMTRADE and UN⁵¹.

TABLE 3-4 : TRADE PERFORMANCE HS: EXPORTS OF PAKISTAN-00 ALL INDUSTRIES (2010, GB£, THOUSANDS)

Rank	Leading partners	Exports in value	Exports: % share of total exports	Exports: % share of world exports	Number of exported products	% Share of top 3 exported products	%Share of top 3 export markets	Net trade
0	World	13,841,778	100	0.14	2,733	18.4	33.6	-10,422,491
1	US of A	2,375,140	17.16	0.02	1,008	24.6		+1,322,892
2	UAE	1,186,080	8.57	0.01	1,261	65.2		-2,206,016
3	Afghanistan	1,088,962	7.87	0.01	740	54.7		+999,508
4	China	928,181	6.71	0.01	523	45.8		-2,463,887
5	UK	720,023	5.2	0.01	905	24.7		+309,130

Source: (ITC, 2010)

Since the purpose of this study was to look into trade relationships in the face of greater diversity, a purposive sampling was used to study an *extreme* situation. For this purpose, trade relationships between UK and Pakistan were selected on the

⁴⁸ TDAP: Trade Development Authority of Pakistan, formerly Export Promotion Bureau, a government organisation for promotion of exports.

⁴⁹ BCC: Birmingham Chamber of Commerce

⁵⁰ ITC: International Trade Centre

⁵¹ UN: United Nations

basis of statistics of trade, history, social indicators, and economic well-being of the two nations. An explanation of this is given below and supported with data.

TABLE 3-5: TRADE PERFORMANCE HS: IMPORTS OF UNITED KINGDOM - 00 ALL INDUSTRIES (2010, GB£, THOUSANDS)

Rank	Leading partners	Import value	Imports: % share of total imports	Imports: % share of world imports	Number of imported products	% Share of top 3 imported products	% Share of top 3 supplier countries	Net trade
0	World	361,100,166	100	3.54	4,662	14.3	30.9	- 99,482,154
1	Germany	45,064,847	12.48	0.44	4,223	16.3		- 16,693,599
2	China	33,873,773	9.38	0.33	3,749	12.2		- 26,653,481
3	US of A	32,502,152	9	0.32	3,931	33.1		+5,040,093
4	Netherlands	26,002,794	7.2	0.26	3,727	17.5		-5,501,744
5	France	23,297,888	6.45	0.23	3,875	13.3		-3,174,460

Pakistan's exports to UK are ranked 55th and therefore do not appear on this list. Source: (ITC, 2010)

The case was considered extreme because overall trade between Pakistan and UK is unbalanced since from Pakistan's perspective, UK is a major contender for Pakistan's aggregate exports as it was the fifth largest importer for Pakistan's total exports in 2010 (Table 3-4; Appendix A1). However, UK's overall imports from Pakistan are significantly low and Pakistan was 55th in 2010 (Table 3-5) and fifty-third on the list of UK's aggregate imports in 2011 (Appendix A2). Therefore, from Pakistan's viewpoint UK is a major importer and any study conducted on overall exports of Pakistan would include UK as a sample country, whereas from UK's perspective, a study based on imports into UK would include Pakistan only as part of the 'Others' category, if it is not completely omitted. Therefore, UK is an important trading partner for Pakistan with respect to total exports but Pakistan's exports hold a very small share of the total imports into UK.

Having said that, it would be incorrect to assume that Pakistan is not an important supplier for UK. The disparity or misbalance seen above is due to the nature of

trade between the two nations. Pakistan is an exporter of cotton and other low-technology products which, by their nature, command a lower price as compared to high-technology goods which form a major part of UK's imports. For example, 30.3% of imports of UK in 2011 were made up of machinery and transport equipment. However, Pakistan is an important supplier to UK in its own right in that it has consistently played a major part in the miscellaneous goods supply base of UK. This study is relevant to both countries since Pakistan plays a major role in fulfilling UK's supply needs for the particular goods chosen for this research, and UK is a major destination for these products.

TABLE 3-6: TRADE PERFORMANCE HS : IMPORTS OF UNITED KINGDOM-63 OTHER MADE TEXTILE ARTICLES, SETS, WORN CLOTHING ETC (2010, GB£, THOUSANDS)

Rank	Leading partners	Import value	Imports: % share of total imports	Imports: % share of world imports	Number of imported products	% Share of top 3 imported products	% Share of top 3 supplying countries	Net trade
0	World	1,366,473	0.38	4.64	52	31.1	67.7	-785,540
1	China	550,469	40.32	1.87	52	33.2		-548,441
2	Pakistan	230,515	16.88	0.78	42	58.5		-214,828
3	India	142,823	10.46	0.49	51	47.6		-139,883
4	Germany	62,080	4.54	0.21	49	51		-18,806
5	Turkey	60,338	4.42	0.2	46	62.3		-57,628

Source: (ITC, 2010)

TABLE 3-7: TRADE PERFORMANCE HS : EXPORTS OF PAKISTAN - 63 OTHER MADE TEXTILE ARTICLES, SETS, WORN CLOTHING ETC (2010, GB£, THOUSANDS)

Rank	Leading partners	Exports in value	% share of Pakistan's exports	Exported quantity (Tons)	Export value/unit (GB£/Tons)	% Share of top 3 exported products	% Share of top 3 export markets	Net trade
0	World	2,124,086	15.34	6.83	49	60.7	61.3	+2,004,774
1	US of A	900,481	42.39	2.9	46	63		+870,306
2	UK	243,381	11.46	0.78	43	67.1		+232,482
3	Germany	157,965	7.44	0.51	38	81.8		+148,159
4	Belgium	96,721	4.55	0.31	35	74.7		+94,787
5	Italy	71,230	3.35	0.23	35	71.2		+70,154

Source: (ITC, 2010)

The choice of industries for this research – textiles and leather apparel – is based on its importance to both countries. Pakistan is the second largest supplier of home-textiles to UK, after China (Table 3-6; Appendix A3). Therefore, though Pakistan is low in significance when overall imports of UK are considered, textile imports from Pakistan are significant to UK importers of textiles.

Textiles are also the second largest exports from Pakistan, after cotton exports (Table 3-7; Appendix A4). Development of this segment, therefore, is very important to Pakistan because cotton export does not bring in value-addition whereas exports of manufactured goods such as bed-linen and other home-textiles offer significant value-added advantages to boost the country's economy. Similarly, Pakistan is an important source of supply of home-textiles for UK and, therefore, it is assumed that the dyadic relationship holds importance for both interacting partners.

The second chosen industry, leather-apparel, has been one of the star manufactured-goods exporting industries of Pakistan. With leather moving into departmental stores and losing its speciality appeal, leather jackets have lost their elitist status. However, leather-apparel still remains an important part of Pakistan's exports, with Pakistan as the third largest supplier of leather apparel for UK (Table 3-8; Appendix A5). UK is sixth in the list of markets for Pakistan (Table 3-9; Appendix A6) and comparatively smaller volumes of its overall products are bought by UK. However, it is a significant commodity in Pakistan's basket of exports and since Pakistan is a major supplier of leather-apparel for UK, the leather-apparel industry is included since it holds importance for both countries.

TABLE 3-8: UNITED KINGDOM IMPORTS: 420310 ARTICLES OF APPAREL OF LEATHER OR COMPOSITION OF LEATHER, 2011 - GB£, THOUSANDS

Rank	Leading partners	Imports in value (GB£)	% share in UK's imports	Imported quantity (Tons)	Imported value/unit GB£/Tons	Import growth in value: 2010-2011 (%p.a.)	Partner country ranking in world exports	Partner country % share in world exports
	World	118,413	100	2,632	44,990	11		100
1	Italy	31,435	26.5	434	72,431	49	3	15.9
2	India	19,081	16.1	423	45,108	12	1	16.8
3	Pakistan	14,878	12.6	751	19,810	-4	4	9
4	China	11,868	10	521	22,779	-25	2	16.2
5	France	11,551	9.8	45	256,689	25	6	4.7

Source : (ITC, 2011).

TABLE 3-9: PAKISTAN EXPORTS: 420310 ARTICLES OF APPAREL OF LEATHER OR COMPOSITION OF LEATHER, 2011 - GB£, THOUSANDS

Rank	Leading partners	Exports in value (GB£)	% share in Pakistan's exports	Exported quantity 2011 (Tons)	Exported value/unit GB£/Tons	Export growth in value: '10-'11 % p.a.	Partner country ranking in world imports	Partner country %share in world imports
	World	231,230	100	3,056	75,664	1		100
1	Germany	56,330	24.4	744	75,712	18	1	14.3
2	USA	25,996	11.2	344	75,570	15	2	12.5
3	France	23,295	10.1	308	75,632	-3	3	9.4
4	Spain	19,665	8.5	260	75,635	-28	6	4.8
5	Netherlands	16,516	7.1	218	75,763	38	8	3.7
6	UK	15,462	6.7	204	75,795	-4	5	5

Source : (ITC, 2011).

The UK and Pakistan share a unique history which has left its imprints on their culture. As part of India till 1947, when it gained independence to become a separate nation, Pakistan was under the British rule called the British Raj, or British Empire, for about a hundred years and for about another hundred years before that it was under the influence of the British East India Company. The long rule, while positively affecting development in industry and infrastructure, has led to a feeling of power dominance by the British on the Pakistani community, especially in the older generation who still talk about *ghulamana zahniat*, or 'slave mentality', as explanation for acts of conformance to apparently illogical demands, especially in politics and trade. The desire to acquire western lifestyle

and accessories is still viewed by some of the elderly in Pakistan as a consequence of slave mentality.

This power divide was more apparent in the UK in the seventies than it is now with the passing away of older generation but its presence and effect on trade relationships has not been studied. Is what the *gora* (white man) says always right or does it simply have to be complied with because, right or wrong, the *gora* is more powerful? Is the perception made logically on the basis of dominance of technology and superior marketing abilities or is it a belief passed down through generations of oppression? These are not the main issues of the research but are a part of the context of the study and an outcome of the results nevertheless.

Social and economic indicators also lay out stark differences between the two countries. The UK is a high-income economy as well as an OECD⁵² member whereas Pakistan has recently acquired the status of a lower-middle income economy (World Bank, 2010). The Great Britain set off the industrial revolution in the eighteenth century and turned from an agrarian society to an industrial one and is now gradually moving towards a services industry, whereas agriculture plays an important role in Pakistan and manufacturing started as recently as around the 1950's.

Pakistan is highly dependent on international investments and aid whereas UK is a major donor in the world market. Compulsory education in Pakistan is for five years and that too is not implemented strictly with the result that adult literacy rate is 45.1% (2008), whereas in the UK education is compulsory till sixteen years and implemented through strict social structure. Inadequate provision of health

⁵² OECD: Organisation for Economic Cooperation and Development

services in Pakistan, especially in the rural areas, results in low life expectancy of 66 years for men and 67 years for women, whereas in the UK state-owned health centres provide adequate health services and R&D⁵³ in the area have increased life expectancy to 77 years for men and 82 years for women (2005-2010). Some other indicators highlighting the differences between the two countries are given in Appendix A7.

Pakistan is an Islamic state, follows the Islamic *Shariah* law, and has a strong influence of religion on its culture, society, politics, and major walks of life. This influence of Islam over Pakistani populace is recently seen adversely by western cultures, especially since the rise of concepts like Islamic extremism. Pakistanis, however, are more liberal in their outlook to life than perceived, especially in the elite class to which most of the business community belongs.

The British are less governed by religion, strongly individualistic, outspoken, and democratic, with freedom to voice their opinions and hold their own in a multi-cultural, multi-ethnic society. The English tradition of independence points to an egalitarian society where fair play is advocated and any attempt at manipulation or orchestration of individual viewpoints is condemned (Storry & Childs, 2007). Pakistanis, on the other hand, are collectivists and conformists but also strongly opinionated though the individual opinions have only recently started to be voiced under the media freedom gained during Musharraf's presidency. Though the media and newspapers have made good use of the freedom, the average Pakistani is still resigned to voicing his political views in his sitting room instead of turning up for polls on election-day unlike the British who give voice to their choices

⁵³ R&D: Research and Development

through electing their government. Like the British culture, or any other culture for that matter, the young generation of Pakistan is strongly influenced by media, is very much a part of the MTV culture, and is strongly brand conscious. In the process of westernisation, Pakistan is more influenced by the American culture than the European culture. The American influence can also be seen in UK over media, fast food, and consumer brands.

The differences mentioned above highlighted diversity in cultures of the two nations involved in trade and built the context for the study. Within this context industries were identified and units of analysis selected. The following section elaborates further on the selection of specific industries within which the importers and exporters were selected.

3.4.2.3.2 *UNITS OF ANALYSIS*

As expressed earlier, the dyadic relationship between importers and exporters is the unit of analysis in this study. The topic of the research is to look at how people in the setting or context constructed ‘reality’ about their relationships with their trading partners, that is, what are their reported perceptions of their business relationships and what are the consequences of their perceptions for their partnership and for their behaviours. This means that a setting was required where actual dyads were examined so that individual perceptions of importers and their partner exporters could be compared against each other to look for similarities and dissimilarities.

3.4.2.3.3 *SPECIFIC INDUSTRIES*

Based on their relative importance to the chosen countries, two industries were selected, namely textiles and leather apparel. The industries chosen held relatively greater importance for the developing country in terms of volume of trade since they were selected from the list of top ten highest exports from Pakistan (Appendix A8)⁵⁴. These industries ranked very low in the list of products imported by UK (Appendix A9)⁵⁵. However, within the categories of industries chosen, Pakistan's exports to UK, as well as to the world, ranked among the top five exporters and Pakistan was a significant supplier for UK in the product categories.

Within the industry, six dyads were selected from the textile industry because of its group breakdown into important segments of bed linen and towels (three dyads per product were selected) that hold greater relative importance to both countries under study. Three dyads were selected from the leather apparel industry. For each product group, three importers and their partner exporters were studied and compared against each other and then a comparison was made of all the dyads in the study. The Harmonised System of product classification (HS 2002) was used to select the industries.

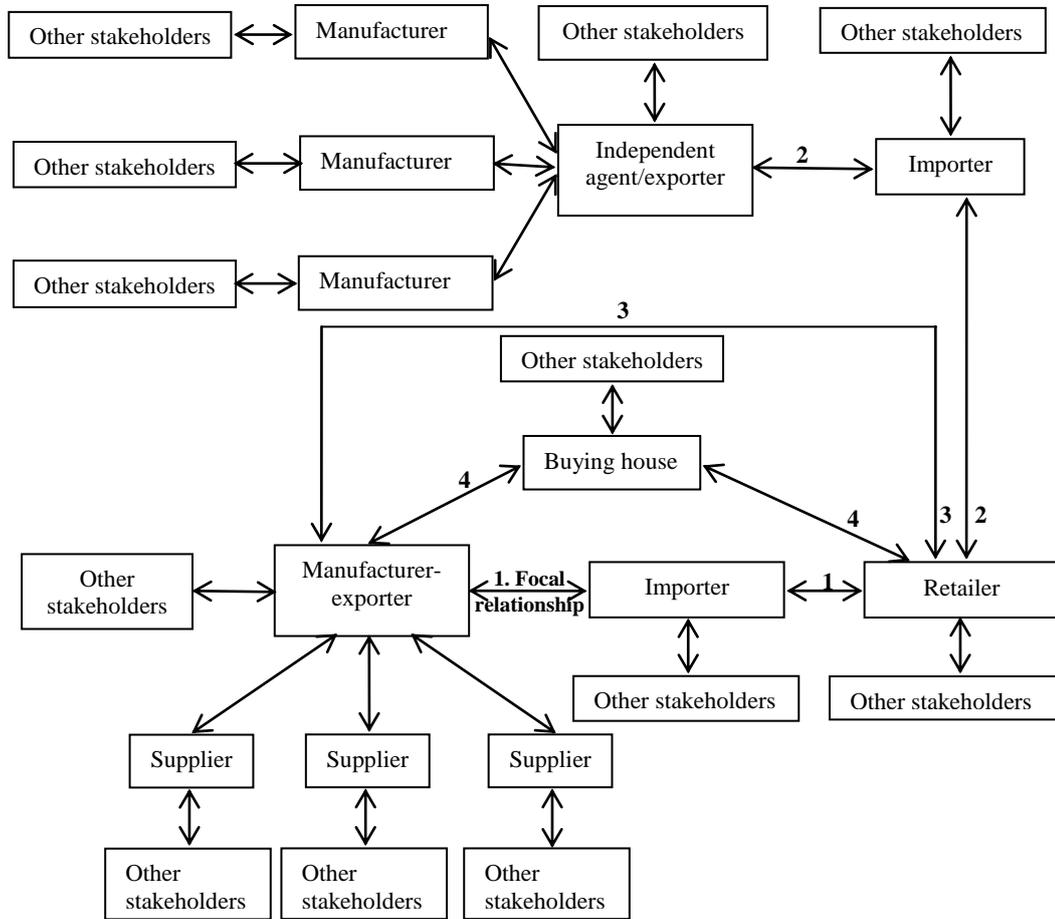
Figure 3-3 gives a snapshot of the basic relationship linkages between UK buyers and Pakistani sellers in both home-textiles and leather-garment industries.

Interaction 1 is the focal relationship for this research because it fulfils the requirement for selecting relationship dyads from the two industries. In this relationship, a Pakistani manufacturer-exporter has direct interaction with a UK

⁵⁴ Industry ranks by export volume, Pakistan – Textiles: 2; Leather apparel: 7

⁵⁵ Industry ranks by import volume United Kingdom– Textiles: 38; Leather apparel: 47

FIGURE 3-3: A SIMPLIFIED MODEL OF BASIC RELATIONSHIP LINKAGES BETWEEN UK IMPORTERS AND PAKISTANI EXPORTERS



importer who supplies to the UK retailers. This relationship was selected because the intention was to look at Pakistani manufacturers' international operations and, therefore, only those respondents were selected from all product categories who manufactured finished products for sale in retail outlets in UK. This was done in order to maintain consistency in products and processes of respondents.

Additionally, and as explained later, the big manufacturer-importers belong to the organized sector of the industry, are EHS compliant and have large, state-of-the-art manufacturing systems that equip them adequately to meet Western demand. Their success is, therefore, considered important for economic development and

since it is the first known study on relationships involving Pakistani exporters, it was considered a good starting point.

The above criteria ruled out independent importers who did not manufacture, both in the textile and the leather-garment industries. These relationships are depicted by **interaction 2** of Figure 3-3 where independent agents/exporters, who did not own manufacturing units, were simply involved in bulk-assembly by placing orders with various small manufacturers and procuring small lots to sell directly to importers. The manufacturing-units in this case were small and could not produce volumes justifiable for one order from the departmental stores.

These units belong to the informal unregistered segment of the industries, are sparingly compliant and, therefore, have lower cost structures, which enable them to offer cheaper prices. These were not considered as prospective respondents for this research due to the legal implications of exports by these firms. Although they account for a considerable amount of exports from Pakistan, their employment as international suppliers is questionable and disallowed by retailers who are more conscientious of their supply sources.

The existence, and employment, of these unregistered, non-compliant firms makes for an important topic of research but is not the objective of the current study as the emphasis here is to look at healthy on-going relationships that form the backbone of the economy, i.e. the organised formal sectors of textile and leather-apparel industries.

Interaction link 3 describes the relationship where retailers buy directly from the manufacturers. This is a rare incidence in Pakistan and the relationship was not

considered frequent enough to warrant consideration in this exploratory study. Only direct relationships of exporters with importers were considered. Relationships with retailers were not taken into account as these did not form part of the usual structure of interactions in Pakistan-UK trade.

Interaction 4 describes a situation where retailers set up buying houses in the supplying country and the buying house becomes responsible for selection and qualification of suppliers, procurement and delivery. In this case, the direct relationship is between the manufacturer and the buying house. There are no buying houses in Pakistan and for most part importers perform all the above mentioned functions. Therefore, these relationships did not form part of the research.

Figure 3-3 shows the relationships of each actor with numerous stakeholders besides the buyer-supplier dyad. These include other intra- and inter-organisational relationships including firm personnel, competitors, other suppliers/buyers, financial services, logistics providers, ancillary industry and the like. At one time, an importer may have placed an order at two different factories and thus may share stakeholders. Since this research is concentrated on the specific importer-exporter dyad, the emphasis is not on the portfolio of relationships besides the dyad, but its impact on the dyad may be gauged through respondents' perceptions. A brief description of each of the industries follows in the next sections.

3.4.2.3.3.1 TEXTILE INDUSTRY

Textile ranks as number two exporting commodity from Pakistan and is a major contributor to the 41.8% of manufactured goods out of its total exports of \$25.3 billion in 2011 (COMTRADE, 2011). This dominance is primarily in the middle-to-lower end of the market as the local cotton is ideally suited for coarse yarn counts which are required in these products. Pakistan is also the second largest exporter of textiles to UK (Appendix A10) and UK is Pakistan's second largest market for textiles (Appendix A11).

The textile industry falls under section 6 – manufactured goods classified chiefly by material – of SITC⁵⁶ and Harmonised System (HS) 2002. The specific subgroup chosen for this study was HS6302⁵⁷ – bed, table, toilet, and kitchen linen – which is subdivided further according to Appendix A12. UK ranks as the fifth largest importer for HS6302 with 5.43% of world imports (Appendix A13). Pakistan's ranking for the sub-group is second in world exports, with 13.68% of world's exports (Appendix A14). Pakistan was also the top-most supplier to UK in HS6302 in 2011.

It was found that within this category, bed-linen and terry-towelling were two areas that had high imports to UK as compared to other categories (Appendix A15; Appendix A16) and individual world exports from Pakistan of these two categories were higher compared to the exports of other products in the top ten list

⁵⁶SITC: Standard International Trade Classification (UN) statistical classification of commodities for international trade

⁵⁷HS6302 relates to SITC group 658: made up articles, wholly or chiefly of textile materials n.e.s. Further group breakdown is: 658.41: Bed linen, knitted or crocheted; 658.42: Bed linen, not knitted nor crocheted, of cotton; 658.43: Bed-linen, not knitted nor crocheted, of other textile materials; 658.44: Table linen, knitted or crocheted; 658.45: Table-linen, not knitted nor crocheted, of cotton; 658.46: Table-linen, not knitted nor crocheted, of other textile materials; 658.47: Toilet and kitchen linen of cotton; 658.48: Toilet and kitchen linen of other fibres

of exports from Pakistan. Also, these industries involve separate production plants with their own distinct factories thus the two categories were considered significantly important individually and were selected as separate cases.

Both bed-linen and towel industries have a well-established manufacturing base in Pakistan, with prominent local brand names involved in manufacturing from early fifties and in exporting from early seventies. There are separate manufacturing units for bed-linen and towels and manufacturers specialise by product in most cases. The bedding industry is older than Pakistan itself whereas the towel industry did not take off till as late as 1965.

Large manufacturers export their products to retail outlets in UK through the importer (Relationship 1, Figure 3-3) while small manufacturers usually export their products through independent exporting agents (Relationship 2, Figure 3-3). This is generally due to the fact that they do not have the capacity to fill the demands of large departmental stores. The usual chain of relationships in such a situation is that an independent, non-manufacturing exporter is in contact with importers who place an order with the exporter. The exporter then assembles the products from various manufacturers and delivers to the importer.

UK imports most of its textiles and most departmental stores use the services of importers to select the origin, product, and design and to perform the functions of ordering, QC⁵⁸, customs, warehousing, packaging, delivery etc. Therefore, in most instances manufacturers do not deal directly with the retailers but with the importers who act on their behalf. Interactions with retailers are infrequent, mostly limited to a visit by the representatives of retailers to examine the manufacturer's

⁵⁸ QC: Quality Control.

facilities in order to qualify him as a credible source of supply and permit the importer to procure from them. Once this is done, the importer is left to perform his functions independently.

Prior to coming into force of the WTO⁵⁹ in January 2005 and the removal of quota restrictions, Pakistani home textiles were assured market access to the EU and the USA through a quota system, which enabled the Pakistani industry to enjoy good profit margins as they were assured markets for their products. In addition, GoP⁶⁰ also supported the industry by keeping cotton prices in Pakistan at a low compared to the international prices and allowing liberal custom duty rebates to the export sector. The price of cotton was kept low, firstly, by fixing a support price for raw cotton which was much lower than international prices and, secondly, by not allowing free export of raw cotton. Custom duty rebates which were aimed at refunding to the exporters the customs duties paid on their inputs were also very lucrative.

This combination of export quotas, lower cotton prices, and duty drawbacks allowed the sector to make high profits while at the same time did little to encourage the industry to move towards higher value-addition. Though the exporters were able to work on breakeven at production cost while making their profits from rebates, instead of using these high margins to develop their competencies, most suppliers shared part of the duty drawbacks with the importers, which in effect meant subsidizing their buyers. The importers were well aware of the rebates and demanded cost reductions accordingly. This cutthroat competition within the local industry meant that companies were not

⁵⁹ WTO: World Trade Organization

⁶⁰ GoP: Government of Pakistan

making enough money to fund organic growth and as a consequence Pakistani companies in the textile sector were unable to build scale.

In 2000 it became clear that quotas would be removed in 2005 and that the high rates of customs rebates would not be allowed under the WTO (this could be construed as direct government subsidy which was not allowed under WTO). Also, GoP was finding it increasingly difficult to artificially keep the prices of cotton down and the farmers were demanding higher prices to reflect cost of inputs. Some of the more progressive groups started preparing themselves for the change, however, the bulk of the industry continued to believe that GoP would be forced to come to their rescue since cotton – and cotton made-ups – was the largest contributor to exports and also the largest employer of industrial labour in Pakistan. The larger, more progressive groups went in for more intensive vertical integration, with increasing output as the main objective. Minimum efforts, however, were made in improving productivity of the workers or in revamping their production processes.

From 2000 onwards GoP started reducing the rates of customs duties on imported chemicals, dyes, accessories etc. This translated into a reduction in the rates of customs duty drawbacks to the exporters. To make up for its revenue loss due to a reduction in the customs duties, GoP increased the rates of sales-tax on inputs used by the textile sector and allowed sales-tax refunds to the exporters. In Pakistan sales-tax is collected in the VAT⁶¹ mode.

The sales-tax department did not place a proper documentation system in operation because of which it was difficult to verify rebate claims filed at the

⁶¹ VAT: Value Added Tax.

sales-tax department. This resulted in a number of companies entering the textile export sector with the objective of misusing the sales-tax refund mechanism (exports were zero-rated and input sales-tax fully refundable for export units). These companies would have to register in order to file a rebate claim but their opportunistic objective was to reap short-term benefits by taking advantage of the leakages in the system.

Because of the high rates of sales-tax refunds (15%) some of these new, mostly commercial exporters with no in-house manufacturing, were able to undercut the formal exporters by offering lower prices. In the absence of an effective and transparent refund mechanism, refund claims of genuine manufacturing-exporters started to build up at the sales-tax department, causing severe cash-flow problems for these manufacturers. Additionally, GoP realised that due to an inadequate verification system in place at the sales-tax department of FBR⁶², it was paying out more in the form of sales tax-refunds as opposed to what it was collecting.

In 2005 GoP decided to zero-rate the entire textile chain: this meant that anybody who was involved in any aspect of the textile trade – raw cotton, spinning, weaving, processing, retailers, exporters etc. – had their inputs zero-rated, i.e. their inputs were not subject to any sales-tax and as such there were no refunds against any sales including exports. This zero-rating helped not only to plug revenue leakages, but also to move the textile export sector into the formal sector.

Up until December 2004 when the quota was in place, buyers were in effect “forced” into buying from Pakistan, and its textile industry did not face serious global competition. The Chinese manufacturers were not a real threat and quality

⁶² FBR: Federal Board of Revenue

from India was on the lower-end as compared to Pakistan because at that time India mostly used domestic dyes and chemicals, which were inferior to the imported chemicals and dyes that Pakistani firms used. Economic conditions also favoured the textile industry. Exchange rates were considerably stable which meant that companies that relied on imported raw materials or had to service foreign currency debt were able to build currency fluctuations into their calculations.

During the eighties and nineties textile era of Pakistan, GoP did not encourage value-added sectors in the sense that it allowed free export of yarn that enabled countries like Bangladesh and Sri Lanka to use Pakistani yarn and become competitors for Pakistani value-added sectors. Also, it did not impose size restrictions on companies which could enter exports and, as a consequence, a large number of SME's entered the markets which were cheaper than the larger units and thus kept prices artificially depressed, thereby preventing larger companies from growing.

Free availability of credit meant a lot of units were set up which were not economically viable, or the sponsors did not have the relevant skills necessary for the industry. Even when these units are no longer financially viable, i.e. unable to pay back the principal amount and the interest on loans, they continue to operate at variable costs because of weak foreclosure laws in Pakistan⁶³. They are thus able to offer lower pricing and undercut healthy manufacturing firms as their costing does not reflect cost of capital. The GoP is currently working to pass,

⁶³ Foreclosure laws in Pakistan are very weak, with a lot of lacunas in the legal system, which allows debtors to get away without paying the creditors for a considerable period of time

through parliament, a new Corporate Rehabilitation Act which will allow creditors to repossess and restructure their assets.

The GoP also did not encourage GM⁶⁴ seeds in cotton production, or corporate agriculture. The stronghold of landlords who rent their lands to poor farmers to cultivate and later share in their yields means that there is little financial capability for R&D, growth and experimentation with GM seeds by the farmers on their own.

The SBP⁶⁵ has continued to provide subsidized export credit in the 2000's but the rates are still higher compared to the rest of the region because of the high rates of inflation in the country. Exchange rates have become more volatile and this is apparent from the fact that the Pakistani rupee lost 33% of its value in less than a year in 2008. This meant that companies which had to service foreign currency debt faced major financial problems.

On the flip side, loss of value in currency has meant that the Pakistani exporter has a considerable price advantage vis-à-vis suppliers from India, Bangladesh and China. When the world economy rebounded in 2009, Pakistani textile exports were the first ones to pick up as they are in the lower-priced segment. In 2010, (after completion of the data-gathering stage of this research) the government finally provided support to the local textile value-added sector by putting a regulatory duty on yarn exports.

In the UK during the eighties and nineties, established UK speciality retailers of textiles like *Dorma* and *Christy* dominated the retail and had considerable

⁶⁴ GM: Genetically Modified.

⁶⁵ SBP: State Bank of Pakistan

experience in textiles, including direct domestic manufacturing experience. The domestic manufacturing was geared towards producing high-end speciality items while bulk-buying was done internationally through importers who performed various functions for the independent retailers, including identification of suppliers and bulk assembly, through their foreign market skills and expertise. Since the retail business in the UK was more fragmented, margins were higher and importers could afford to be more flexible with their pricing. However, with labour, compliance, and environmental safety laws becoming more stringent in the UK, retailers shifted their production to cotton-rich countries like Pakistan where they worked with their suppliers to develop new products and improve manufacturing practices in the factories.

At the same time, a change in retail and buying patterns occurred in the UK due to the entrance of departmental stores and supermarkets, with the result that bedding and towelling retail lost its position as a speciality product and the independent retailer, for the most part, was replaced by large department stores and supermarkets. These large department stores use the services of importers for product acquisition from international suppliers, and the chain of relationships is the same as that of the independent retailers who hire services of the importers for bulk-buying.

In addition, the department stores open buying houses in countries which offer cost benefits. Importers are constantly being challenged by the buying houses of the larger departmental stores and supermarkets which are very good at finding bargain prices and undercutting importers' quotes due to their large volume-purchases, as well as offering the manufacturer a direct relationship with the

department stores. Such instances of direct interactions with retailers are very rare for European markets but are prevalent in trade with large USA departmental stores.

Additionally, the younger merchandisers in department stores, although comparatively new to the business, are nonetheless very good at bargaining for competitive prices. Importers find that the price flexibility they enjoyed with independent retailers has been taken away at the cost of reduced profits. As mentioned earlier, Pakistani exporters, who are now competing with regional companies after the implementation of WTO, have also been forced to work on narrower margins.

(II) LEATHER INDUSTRY

The leather industry falls under section 8 of SITC rev 3 (miscellaneous manufactured articles)⁶⁶ and 42 of HS 2002 (articles of leather, animal gut, harness, travel goods – see Appendix A17 for further breakdown). In 2011 the section 8 account for 25.3% of total exports of Pakistan (COMTRADE, 2011) and Pakistan's contribution to total world exports of leather apparel (HS420310) was 10.99% which makes it the third largest exporter in the category. UK's imports of leather apparel account for 4.97 % of world's total imports and this places it in fifth largest importer for this product (ITC, 2011).

⁶⁶The SITC division is 84: articles of apparel and clothing accessories;
Group 848: articles of apparel and clothing accessories other than textile fabrics; headgear of all materials;
Subgroup 848.1: articles of apparel and clothing accessories, of leather or of composition of leather [not including gloves, mittens, and mitts (specially for sports) of heading 894.77]; further sub-grouping – 848.11: articles of apparel; 848.12: gloves, mittens, and mitts, not designed for use in sports; 848.13: belts and bandoliers; and 848.19: other clothing accessories

Although the above mentioned figures give a rosy picture of the industry, it has actually been ailing in Pakistan since the late nineties. A move in Europe of leather apparel from high-end niche products to mainstream departmental fashion garments has had its effects on prices and on demand for good quality leather. Volumes tend to be higher but the competitive prices required by mainstream departmental stores put a stress on the producers who find it hard to compete. Many of the manufacturers have therefore left the industry or are focusing on domestic and low-end Eastern European markets.

Leather-garment manufacturing involves procuring leather from tanneries, cutting it to size and design, stitching or making the garment, and the final processing called trimming which involves completing the final details such as attaching labels, zips and buttons, pressing etc, before it is packed and made ready for delivery. This process of CMT⁶⁷ constitutes the bulk of the manufacturing process of leather apparel.

Some of the manufacturers are vertically integrated and own their own tanneries which enable them to design the leather and fashion the colours according to the requirements of the retailers. Retailers do not deal directly with the exporters in majority of cases and instead use the services of importers who carry out the task of searching for the suppliers, communicating designs, and ensuring quality, delivery, warehousing, packaging, pressing, financing, and delivery.

On the exporting side, not all manufacturers deal directly with importers. There are small units in Pakistan that perform the task of CMT for exporters who are in

⁶⁷ CMT: cutting, making, and trimming. SME's have been set up that only perform the tasks of CMT for agents or exporters.

direct contact with the importers (interaction 2, Figure 3-3). Thus, an agent-exporter receives an order and hires the services of various CMT units (depending on the volume of the order) who manufacture the leather garments which the agent-exporter then ships to the importer. Quality assurance in such cases is generally the responsibility of the exporter. In such cases, retailers and manufacturers (CMT unit owners) deal indirectly with each other through the importers and exporters.

The leather garment business in Pakistan started in the early 1980s as the local tanneries started to produce garment leather. This development of Pakistani local tanneries to produce leathers for garments was an outcome of the closure of tanneries in Europe because of environmental concerns. In the initial years the raw skins used by tanneries for raw material were mostly of Pakistani origin and the garment factories were extensions of the tanneries. As the tanning industry developed, new sources of raw material were tapped including the gulf and the East African countries as well as raw skins from Iran and Afghanistan. The greater availability of raw skins allowed new people to enter the tanning industry and set up new tannery units which were willing to sell leather to the local independent garment manufacturers.

As the local leather-apparel industry started to develop they started working initially with leather-apparel buyers from Germany, the UK, and Northern Europe. The US market was not a major destination since the local industry did not have the volumes to cater to the US market.

In the early 1990s, after the breakup of the former Soviet Union, huge latent demand for leather garments was released in the CAC⁶⁸ and because of Pakistan's proximity to the CAC a major portion of the industry started to serve the CAC's. In the West, the former independent leather retailers started to lose ground to the department stores for which leather was a minor part of their fashion collection. The department stores started to push the prices down and started demanding higher qualities.

The mid 1990s saw China becoming a major player in the industry and a major part of Pakistan's leather garment business shifted to China. The larger units mostly started to close down as they were unable to compete with China while the smaller units closed because they did not have the volumes to deliver. In 2008 the prices of leather were at their highest, but as the economic crisis came in the end of 2008 the market for leather caved in during the early part of 2009.

In 2010, China has taken a major decision to move out of industries that cause pollution, leading to a return to Pakistan of the leather buyers from the West. A number of UK-based companies are sourcing through Pakistan, however, quality remains a major concern. Additionally, the leather-apparel manufacturers for the most part are not willing to get compliance certificates as they feel that the cost is not worth it.

In early 2000 the independent leather-apparel manufacturers set up their own association called the PLGMEA⁶⁹, whereas previously they used to be part of the

⁶⁸ CAC: Central Asian Countries

⁶⁹ PLGMEA: Pakistan Leather Garment Manufacturers and Exporters Association

PTA⁷⁰. The GoP supports leather-apparel industry in various forms. For example, it allows duty free import into bond of accessories for use in leather garments for export purposes, which means that accessories such as buttons, zippers, and linings etc. for leather-apparel are imported duty-free into Pakistan if they are used in production and exported within a year. The GoP also allows duty-free import of raw hides and permits a duty drawback for leather-apparel exported from Pakistan. Currently, the entire leather industry is zero-rated for sales tax.

Tanneries which would like to set up development laboratories are paid 50% of the cost by GoP and the government also supports the holding of independent leather-apparel fairs. With the help of foreign aid, GoP has helped finance a common effluent treatment plant for the tannery cluster in Korangi Industrial Area of Karachi. It provides subsidized export credit at an average 10% against the actual interest rate of 17-18%. Also, PLGMEA can import pattern machines under the EDS⁷¹. A 0.25% EDS is taken by the government and used to develop industry with associations like PLGMEA and PTA.

However, the leather-apparel industry of Pakistan needs assistance from GoP in order to set up laboratories which can provide certificates for composition of materials used in leather garments. Additionally, there are no exemptions of the restrictive labour laws for export sectors, the textile sector included, which is counterproductive to exports since firms prefer to hire contract labour.

As in the case of textile and other industries, the government does not implement environmental laws fully and this is an issue for factories that are fully compliant

⁷⁰ PTA: Pakistan Tanners Association

⁷¹ EDS: Export Development Surcharge

and, therefore, have higher cost structures but must compete with the smaller units that are not fully compliant and have leaner cost structures. As was the case in the textile industry, GoP previously allowed duty drawbacks on all exports including textiles and leather, which were as high as 15% in 1992 and the leather-apparel manufacturers would work on breakeven pricing while accruing profits from the drawbacks.

Again similar to the textile industry, the importers of Europe were well aware of this and built their share in the profits while demanding lower prices to the effect that there was no reinvestment for growth and development. With the removal of these rebates, price pressures from retailers, and increased competition, the Pakistani leather--apparel manufacturers find themselves losing the competitive edge they once had. Thus, while export of leather from Pakistan is on the rise, the value-added leather-apparel industry is faced with price pressures and cost challenges.

3.4.2.4 DATA GATHERING TECHNIQUES

Iterative, discovery-oriented, personal in-depth interviewing technique was used to gather primary data for this research. This technique allowed for flexibility and richness of information which was not possible with, for example, a survey instrument. Since the purpose of the research was to develop a fresh perspective on the relationships between trade partners and pre-structured propositions were not put forward, it was necessary to search for meanings and constructs through direct contact with the respondents.

Other qualitative techniques of data collections like participant observation or action research were not appropriate for the topic. Participant observation would require the presence of the researcher during the meetings that took place between the importers and exporters, which would mean travelling extensively to be at the point of meeting every time two trade partners met. Given the spread of the industries across cities and countries and the time and funding allocated to the project, this approach was unsuitable, besides the fact that perceptions are a person's worldview and may not be apparent through observation alone, though it is agreed that combining observation with in-depth interviews would certainly improve the credibility of the findings. Action research, on the other hand, is more suited to the study of processes than individual perceptions.

A combination of *unstructured interviewing* technique with the help of a broad *interview guide*, or an index of topics, instead of informal conversational interview or the structured interview, was found most suitable for this study. The informal conversational interview or 'ethnography interview' offers maximum flexibility through total lack of control and is appropriate where the interviewer can spend a great deal of time in the field and is not dependent on a restrictive number of respondents (Patton, 2002). The researcher can then allow conversations to take their turn spontaneously and finally, through consecutive interviews, converge on the collection of systematic information. This is a time-consuming process and in business settings time is of prime importance. Managers in an organisation like to know beforehand what it is that the researcher needs to know and how they can be of assistance.

Besides, the researcher needs to fully utilise the short amount of time the managers are willing to offer (they usually offer an hour of their time, though in most instances the interviews went on for much longer) and, therefore, it is best to have ready an index of topics that will cover the ideas that the researcher wants to investigate on.

Structured interviews (or the standardised open-ended interviews), on the other hand, offer much less flexibility in replies and the emergence of new venues and viewpoints since they are based on formally written, specific questions that require open-ended answers. There are specific guidelines, through flow charts, of what the interviewer should ask next in response to a certain type of reply.

This technique works best with pre-determined propositions and also when multiple interviewers are involved in data collection. This technique offers the greatest form of consistency across interviews since all respondents are asked basically the same questions and therefore coding and analysis are simplified but it does not lend itself to emergence of new ideas due to its rigidity in construction as do unstructured interviews.

Unstructured and informal interviewing are the two most suited forms of interviewing techniques for interpretive research of a constructivist nature because they allow respondents to express their feelings and worldviews with minimum of control from the interviewer (Bernard, 2000). Since informal interviewing was ruled out due to a business context and time constraints, unstructured interviewing was conceived as the best option for the study.

Although the inclusion of an interview guide would be considered as a move towards semi-structured interviewing, the researcher refrains from calling her method semi-structured because interview guide was not used as a guide but, rather, as a checklist used merely to inform the researcher. Its use was kept to a bare minimum during interviews with the respondents by referring to it only after the interviews had been conducted.

The checklist consisted of a set of topics on concepts that were revealed through literature review (see Appendix B3). No questions were prescribed in the guide but instead the list was ticked off after interviews to see what topics emerged in the course of conversation and new emerging concepts were added to the list.

3.4.2.5 PREPARATION FOR DATA COLLECTION

The sample of importers and exporters was selected through lists obtained from the Pakistan High Commission's International Trade Office in London and TDAP in Karachi. A purposive sampling involved selecting respondents from the selected industries. Only those respondents were selected that formed part of a dyad where both the importer and the exporter were willing to participate and this resulted in a sample with informed consent by the respondents. In this way a total of nine dyads were selected where eighteen initial interviews, and later iterative interviews, were conducted across the two countries.

The technique used was to approach an exporter or an importer, ask for his/her consent, and upon obtaining that, ask for the name of the trading partner who would be willing to participate in the study. Key informants were selected on the basis of their expertise and level of interaction with the trading partner. In all but

three cases, it was found that the owners of the businesses were the ones who interacted the most with the trading partners and they, therefore, were selected for interviewing, with the exception of an Account Manager, a Purchasing and Quality Manager, and a Marketing Director who were also part of the sample and were key informants in their organisations.

Initial requests were made through emails that specified the purpose of the research, its relevance, the importance of the chosen company and respondent for the topic, and a request for a meeting. Responses to the emails were immediate, with the exception of a few who were then contacted by phone but refused to cooperate due to lack of interest or extensive travelling schedules. Those who responded positively to the emails were contacted by phone to confirm interview time and to request for names and contact details of trading partners.

In this way nine pairs of importers and exporters were identified where three pairs were taken from each product category to establish credibility through replication. All respondents requested confidentiality which could be due to the nature of the business where competition is tough and contacts can be misused, or the fact that their trading partners were to be interviewed as well and misunderstandings could be easily created through misrepresentation or misinterpretation of facts.

It is appropriate to note a distinction here between *informants* and *respondents* as put forward by Bernard (2000). The word 'informant' denotes someone who is knowledgeable about certain facts and is identified as a sample because of her/his expertise in the area whereas a 'respondent' is someone who answers questions about her/his personal beliefs, habits, life routines, and worldviews. This research

uses interviewees both as informants in that they were selected specifically for their knowledge and expertise in their business area, and as respondents in that their personal perceptions and values were to be gauged.

Before entering the field to conduct interviews, literature on good qualitative interviews was studied and practiced on colleagues to enable the researcher to acquire the techniques for eliciting responses without, for example, dominating the scene or offering cues to favoured answers (for example McCracken, 1988; Patton, 2002; Bernard, 2000).

It was understood that questions need to be asked objectively so that researcher's opinion does not cloud the respondent and that questions should not provide the concepts but allow the respondent to express his point of view in his own words so that new concepts may be developed. For example, questions like "are you committed to the relationship?" or "how satisfied are you..." should be replaced with "what are your plans for the continuation or otherwise....." or "what is your opinion of..." or "how do you feel about..." An elaboration of the specific techniques used is offered in the next section on fieldwork.

3.4.2.6 FIELDWORK – DATA COLLECTION

The first set of interviews was conducted in Pakistan during June and July of 2008 and then in UK during August and September 2008. Interviewees were approached according to the time set out by them and all the interviews were conducted on organisation premises in the interviewee's office or in the meeting room.

Upon arrival, respondents were presented with the letter of confidentiality which both the interviewee and the interviewer signed. Most interviews lasted for more than an hour with an average time of one and a half hours. In all instances, a comfortable informal environment was established by the interviewee who played the perfect host and offered drinks and assistance in any way required. Tours of the factory and the office were also offered. All the interviews were recorded with the permission of respondents and field notes were taken to make records of such facts as environment, non-verbal cues, and interviewer's expressions at the time, and were completed immediately upon returning from the interview.

The interviews opened up with the respondents asking about the purpose of the study and then, in most cases, embarking on an elaboration of their company's history and activities. Generally, the interviewees were very forthcoming with information. It was felt that the respondents were excited about their businesses and the topic of the study and more willing to talk than initially anticipated. Three of the respondents, two exporters from Pakistan and an importer from UK, were not so forthcoming and needed probing to elicit responses. All eighteen interviews allowed the respondents to discuss their business relationship in any way they wanted and elaborate on any topics that were important to them. This provided richer insight than if respondents were asked specific questions about the relationships.

Questions like the firm's activities in the trading process, the importance of the chosen markets for the firms' operations, important events, persons, firms, or organisations that influenced the relationship, and respondent's and trading partner's role in relationship building provoked answers upon which further

questions could be built that delved deeper into the kind of relationship that existed between the importers and exporters.

The interviews started with a request to explain the business and went on to ask about how the business initialised with the specific partner. Then the question was asked about the type of relationship that existed between the two trading partners.

The respondents were then asked to define what the term 'relationship quality' meant to them in general and the rest of the questions were phrased during the conversation and according to the topic of discussion. Various topics about the relationship emerged during the course of these conversations and were ticked off the list and new emergent themes were added immediately after the conclusion of the interview. This helped maintain a smooth flow of conversation and flexibility while at the same time it allowed for consistency in issues across the various respondents.

Too often though, the conversation took divergent routes, which was healthy since the idea was to discover, and not to confirm. Where new issues emerged, iterative interviews were conducted of those respondents who had not previously talked on those issues and this helped ensure consistency in achieving viewpoints of all respondents.

The first set of interviews with all the respondents were very unstructured in nature and led to divergence in many areas, from processes to grievances with government policies, and the interview guide was not allowed to interfere with the flow of conversation which offered very useful information that had not been conceived of initially. Iterative interviews, on the other hand, used a more focused

approach and started with specific questions on quarries that arose from earlier interviews and their interpretation. The interview guide in the second round of interviews provided specific topics of investigation that were different for each respondent since quarries had emerged through the analysis of the first round of interviews and respondents had provided varied unsolicited responses that needed to be confirmed with other respondents as well.

The ethnic background of the researcher could be seen as a deterrent, especially when the UK importers may have something to say about their Pakistani counterparts that they may consider negative or where the Pakistani exporters assumed pre-knowledge of researcher on some topics. It was therefore necessary to assure at the start that the research was purely academic in nature and opinions and feelings were an important part of the study and should not be held back for any reason because that would compromise the findings.

It was also necessary to maintain a neutral stance throughout the interview so that the researcher's emotions would not bias responses. Instantaneous responses like "I know what you mean...." for remarks that evoked feelings of familiarity were held in check and instead further probing was done through request for elaboration with "what do you mean by that?" interviews were played back upon returning and where an explanation was deemed necessary, it was noted and the interviewees were contacted by phone to request for clarification. Permission for doing so had already been requested at the end of each interview and the first phone call was made to request for a suitable time to discuss the issue. In all instances, interviewees were willing to help out. Contacting the interviewees immediately after the interviews was found to be efficient since the interviews

were still fresh in the minds and the interviewees recalled the issue under consideration clearly.

Iterative interviews were of differing lengths depending on what had already been discussed in the initial interviews. The history of the organisation and the salient features of trade and focal relationship had already been recorded and since the rapport had been built it was easier to get straight to the topic. This did not mean that direct questions were asked from an interview guide. Rather, it means that the conversation started by asking for clarification about a statement made earlier. For example, one iterative interview began as, “you mentioned that some manufacturers show you one quality which gets approved but later send something else. In this case who were you referring to?” Then the interview went on to ask what the consequences were of such an act, how it impacted the focal relationship, etc.

A second round of eighteen interviews was conducted in the UK during January, February, and March 2009 and in Pakistan during the Easter break of 2009. The purpose of these interviews was to explore further into the concepts that were emerging from analysis of the first round of interviews. The same procedure was followed as before where the interviews were recorded and field notes prepared.

Interviews were transcribed along with the data gathering of the second phase. An attempt was made to conduct interviews of the same product in a country at one time and in most of the cases it was possible to do so. The significance of this at this secondary stage was to collect data and ideas about importers (or exporters) dealing in one product and mentally begin to form the shape that the data was

taking. More telephonic conversations were required to obtain explanations on points that required clarification after field notes were completed.

No further face-to-face interviews were conducted and any further explanation or elaboration that became obvious after transcription and during analysis was done by telephone. However, a further contact was made with the respondents when constructs needed to be developed to obtain their opinion on the definitions according to what they had stated in their interviews. In other words, a clarification of the meanings of the concepts was sought from those who had constructed them and corrections were made of any inaccuracies found by the respondents. This helped ensure the *face validity* and *credibility* of the data.

TABLE 3-10: INTERVIEW SCHEDULE FOR PAKISTAN

PAKISTAN				
	First interview		Second interview	
	Date	Timing	Date	Timing
Bed linen:-				
BP1-Director Marketing	21/06/08	1hr 26min	16/03/09	57min
BP2-Director	26/06/08	2hr 51min	17/03/09	1hr 47min
BP3 - Director	04/06/08	1hr 00min	09/04/09	1hr 30min
Towel:-				
TP1-Managing Director	28/06/08	1hr 44min	07/04/09	53min
TP2-CEO	28/06/08	1hr 23min	25/03/09	1hr 10min
TP3-Director	08/07/08	54min	31/03/09	1hr 06min
Leather apparel:-				
LP1-Director	10/07/08	39min	02/04/09	47min
LP2-CEO	15/07/08	37min	08/04/09	1hr 43min
LP3-CEO	09/07/08	1hr 15min	11/04/09	1hr 05min

Table 3-10 and 3-11 outline the interview dates and the amount of time for each interview for Pakistan and UK consecutively. Due to the confidentiality agreement with the respondents, actual names could not be used in the report and therefore names have been assigned according to the product exported from Pakistan to UK. Thus the first bed linen exporter, BP1 in Table 3-10, exports bed-

linen to the first bed-linen importer, BUK1, in Table 3-11 and the first towel exporter, TP1, exports towels to the first towel importer, TUK1, and so on.

TABLE 3-11: INTERVIEW SCHEDULE FOR UNITED KINGDOM

UNITED KINGDOM				
	First interview		Second interview	
	Date	Timing	Date	Timing
Bed Linen:				
BUK1-Managing Director	16/09/08	1hr 30min	19/02/09	1hr 01min
BUK2-Director	19/09/08	56min	07/01/09	1hr 00min
BUK3 – Director	11/09/08	1hr 05min	14/01/09	1hr 10min
Towels:-				
TUK1-Sourcing Director	14/08/08	1hr 01min	09/01/09	36min
TUK2-Pur. & Qlty. Manager	13/08/08	56min	11/02/09	1hr 22min
TUK3-Managing Director	17/09/08	1hr 08min	12/03/09	1hr 02min
Leather Apparel:-				
LUK1-Sales Director	21/08/08	1hr 00min	03/03/09	56min
LUK2-Director	02/09/08	1hr 10min	28/01/09	50min
LUK3-Managing Director	06/08/08	56min	17/02/09	1hr 10min

3.4.2.7 EVALUATION AND ANALYSIS OF DATA

Interview transcriptions were carried out by the researcher herself alongside data gathering. Interviews were transcribed and, where necessary, translated into English and back-translated into Urdu for accuracy. A second listening was conducted to ensure accuracy of the transcribed data in accordance with the interviews.

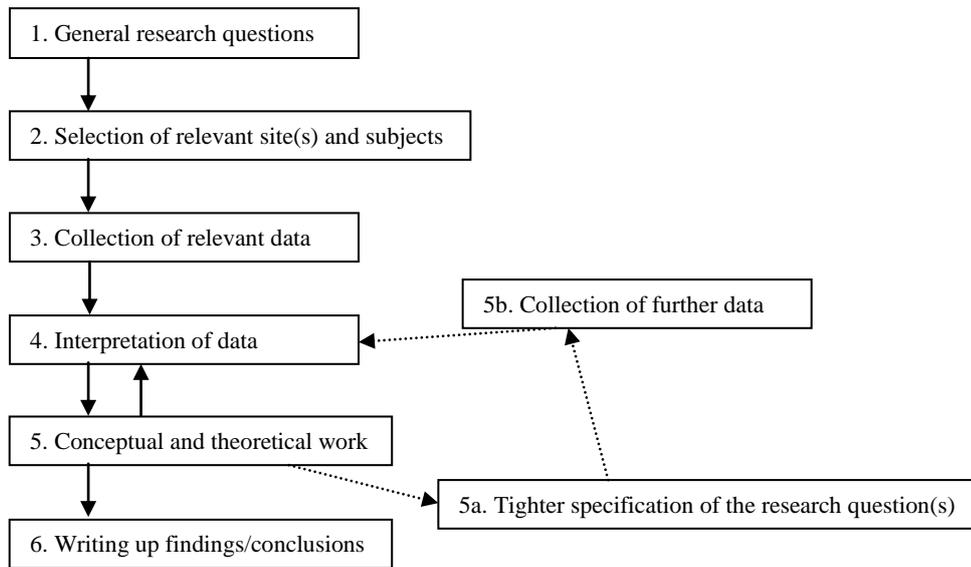
Data for analysis comprised of the transcriptions, field notes, and some documents that the respondents were willing to supply. The documents consisted of marketing material for their products and some invoices to explain the procedures and technicalities involved in trading between countries. The respondents were reluctant to provide email conversations that the researcher requested. These would have formed part of the data on relationships between the trading partners. The transcripts were sent back to the respondents for confirmation of correctness and the respondents were requested for further comments or additions if they felt

necessary. This procedure built credibility of data and also helped the respondents stay in touch with what had gone on before.

The qualitative data required qualitative methods of analysis and the interpretive nature of research required evaluation of data to search for meanings as perceived by the respondents. In the analysis of data, NVIVO 7 was used to help identify codes and develop patterns in the interview transcripts. NVIVO is a package used for qualitative analysis and is an effective and efficient way to handle large amounts of data such as interview transcripts, field notes, and other written data (Richards, 2005). It brings all the data in one place and helps in developing coding structures which can be formulated and reformulated in a number of ways. Its usefulness, however, is limited to organising and developing coding schemes and the analysis and interpretation is still very much the task of the researcher.

The first step of analysis was to analyse each interview separately. *Open or initial coding* scheme was employed to allow for emergence of various codes in an unstructured manner and a long and unwieldy list of codes emerged. After the completion of coding of all the transcripts in this manner, the codes were reviewed and compared to look for similarities so that they could be grouped together and grouping was thus organised. Transcripts and codes were reviewed and coded again, this time through a more *focused coding* scheme to look for further groupings, through comparison, or to check if the groups needed to be collated under one single category on the basis of their advocating a similar thought process. This reduction process continued until no further grouping could be had and no new categories could be made.

FIGURE 3-4: AN OUTLINE OF THE MAIN STEPS OF QUALITATIVE RESEARCH



The first set of concepts and categories that had evolved from the eighteen initial interviews formed a relevant conceptual hypothesis for the next eighteen interviews in which the concepts were further refined. The same procedure was followed for the next eighteen interviews which were transcribed, put into NVIVO, and coded and recoded to form conceptual development and category refinement till category saturation was achieved. A fine set of propositions emerged at the end, and as a result, of this analysis. This procedure of analysis is in accordance with the outline of qualitative research provided by Bryman (1989, p. 370) in Figure 3-4 above.

3.4.2.8 RESEARCH REPORT PREPARATION

The analysis is divided in two chapters. Chapter 4 gives a detailed account of the historical data of the interviews and identifies the forces that guide actions in the relationships. Chapter 5 provides analysis and proposes a contextual model which emerged from the data. Pairs are compared within the exchange relations and then

a comparison is made of all the importers with all the exporters to look for general similarities and differences in perceptions across the two nations. A comparison is also made according to product group for a more specific study of how actors in a business relationship perceive their association and whether there is a fit or mismatch of perceptions regarding important concepts highlighted by the analysis. Chapter 6 lays out a detailed discussion on the findings of the analysis.

3.5 CONCLUSION TO CHAPTER THREE

Chapter 3 discussed a detailed account of the philosophical underpinnings of the research and established it as ontologically relativistic, epistemologically subjectivistic, and methodologically interpretivistic. The chapter also outlined the specific methodology used for the research. A qualitative interpretivistic inquiry was employed that aimed at theory generation through sixteen iterative in-depth interviews. The research design was also explained in detail. The chapter ended with an outline of how the rest of the thesis is organised.

Chapter 4 builds on the analysis of data where the coding and analysis scheme offered in the last section of this chapter becomes explicit and evident.

4.0 ANALYSIS OF DATA – OVERVIEW OF RELATIONSHIPS

4.1 INTRODUCTION – CHAPTER FOUR

This chapter presents an overview of the analysis of interview. Due to the exploratory nature of this research and lack of knowledge about the forces that shape relationships between UK importers and Pakistani exporters, an interpretive design was used to carry out investigation through in-depth interviews of matched dyadic pairs. The in-depth interview method of data collection is recommended for use when investigations need to be made regarding perceptions on relationships. McCracken (1988) points out that investigations on topics like relationships require an understanding on how the respondent defines the concept and what role it plays in his world. Eliciting this response is not possible through structured questionnaires of the quantitative methods of research. Once a pattern of relationships between the dyadic pairs under investigation is established, further inquiry into its generalisability can be conducted through more structured scientific research.

A hermeneutic procedure was used to analyse the interviews according to the guidelines provided by Thompson (1997). Each interview was read once to gain an understanding of what the respondents had said (intra-interview strategy). Next, a part-to-whole reading was conducted to look for patterns and find similarities and differences across transcripts (inter-interview strategy) (Thompson & Haytko, 1997; Hausman & Haytko, 2003). Iterative readings of transcripts through part-to-whole method allowed for building a holistic picture of

the perceptions and a thematic picture developed. Categories were assigned to patterns of responses and Nvivo was used to divide data under the categories. No other function was used on Nvivo and its sole purpose was to assemble data under respective categories.

The product categories chosen for this research included bed-linen, towels, and leather-apparel. Bed-linen and towel categories fall under home textiles industry but their significance for Pakistan as individual items of export requiring different methods of production, and the presence of a vast number of separate mills to produce these items, warrants investigation of both these categories separately. The other chosen industry was the leather apparel industry.

4.1.1 Exporter-Importer Functions – Home-Textiles

Manufacturing process of home-textiles involves various steps that begin with cultivation of cotton and end at the provision of the product at a retail outlet. These steps include: cultivation and harvesting; ginning to form bales of cotton; preparatory processes⁷²; spinning into yarn; weaving/knitting the cloth; finishing⁷³ of product; and finally marketing to make it available to ultimate consumers (MCC, 2009).

Textile-manufacturing firms may buy bales of cotton and perform the preparatory functions of cleaning and carding before spinning cotton into yarn or they may buy already-spun yarn for further processing. Weaving of towels requires special looms called dobby looms. Some home-textile manufacturers may be vertically-

⁷² This entails cleaning, blending, carding, drawing, and combing (optional) of cotton bales

⁷³ Essential steps involve scouring, bleaching, singeing, shrinking, dyeing or printing, cutting, stitching, and packaging

integrated to include retailing, while others may have fewer operations, that is, they may buy bleached white cloth for final processing, as is the case with some towel-manufacturers. Most full-service manufacturers buy cotton at the International Cotton Exchange. Pakistani cotton is also bought from the Karachi Cotton Exchange of Pakistan and this cotton is a regular supply-source for home-textile manufacturers.

Importers of home-textiles are involved not only in the marketing step of the manufacturing process but also often contribute in the designing phase where they have design-teams that conduct research and create designs in accordance with the demands of the European markets. These designs are then conveyed to the manufacturing-firms for production. Other functions of importers include search for markets, getting samples made by manufacturers and approved by retailers, negotiating terms with retailers, getting orders, negotiating terms with manufacturers, overseeing QC, receiving shipments, taking ownership and risk, warehousing, distribution, and extension of credit to the retailers.

4.1.2 Exporter-Importer Functions – Leather-Apparel

Leather-apparel supply-chain starts from procurement of animal-skins and ends at the placement of leather-apparel in retail outlets for end-use. Broadly speaking, once hides are procured from slaughterhouses, they are taken to tanneries in order to convert them into leather. This leather is used by leather-apparel industry to produce various varieties of leather garments. Specifically, leather-apparel goes through ten steps of processing, some performed by tanneries and some by garment manufacturers:

Tannery: 1. trimming hides and cleaning to remove hair and flesh; 2. tanning⁷⁴; 3. washing, to remove all chemicals, and drying; 4. finalizing leather-processing⁷⁵;

Leather-apparel manufacturing functions: 5. designing leather-garment; 6. pattern-cutting; 7. stitching; 8. finishing (trimming); 9. final inspection, and packing; and 10. molding⁷⁶ and pressing (usually performed by importers, stockists, or retailers – see footnote 76).

Tanning and leather-apparel manufacturing are two distinctly separate processes. Tanning involves converting hides into leather which is then used by leather-apparel manufacturing firms as raw material for apparel production. Depending on their size and resources, manufacturing-firms may be vertically-integrated at both ends, with their own tanneries and retail outlets, or they may get their leather processed from other tanneries and manufacture leather-apparel, which they supply to local markets and to international markets through importers.

Traditional form of leather-apparel manufacturing is labour-intensive and employs the use of specialists such as pattern-cutters, leather-cutters, and craftsmen whereas automated processes use sophisticated computerised machines that perform these operations on assembly lines, thereby significantly reducing lead times between order placement and delivery. Pakistani manufacturing-units are mostly traditional and, therefore, labour-intensive.

⁷⁴ Tanning converts animal hides into leather and may be done in one of three ways: vegetable tanning, or prolonged soaking of animal hides in tannic acid; mineral tanning, or placing hides in rotating drums filled with alum-salt; and oil tanning, or spraying hides with fish oil (MadeHow, 2010).

⁷⁵ Finishing involves buffing the leather and applying glaze, dyes, and lacquers in order to produce the finished product

⁷⁶ Molding: a special process where leather garments go through heat applications, pressing, steaming, and blocking before hanging on racks for retail sales. In blocking, curved blocks are placed under cuffs and collars etc. before pressing. When these blocks are removed, the collars/cuffs retain their shape. This process should be performed after unpacking deliveries and unfolding otherwise the garment would lose the distinctive shape

Functions of leather-apparel importers typically involve designing the garments, obtaining samples from suppliers, influencing/recommending leather selection, providing a range of styles to retail account managers, negotiating with retailers, order confirmation and placement with manufacturer(s), production samples (QC), receiving delivery and taking ownership, warehousing, steam-pressing, molding, rack-hanging, tagging, dispatching to distribution centres of retailers, and providing credit to retailer.

4.1.3 Respondents

TABLE 4-1: INDUSTRY-WISE DYADIC PAIRS

Industries	Dyadic pair 1		Dyadic pair 2		Dyadic pair 3	
	UK	Pakistan	UK	Pakistan	UK	Pakistan
Bed-linen	BUK1	BP1	BUK2	BP2	BUK3	BP3
Towels	TUK1	TP1	TUK2	TP2	TUK3	TP3
Leather Apparel	LUK1	LP1	LUK2	LP2	LUK3	LP3

Appendix B2 presents demographic characteristics of the respondents. It is noteworthy that all interviewees in the three industries held senior positions at their organizations. While key informants were selected from each product category, it was observed that seven out of nine interviewees either owned their own businesses or were major shareholders and therefore were able to talk about relationships from conception. The business was either founded by them or they were the second generation. Interestingly, only two of the respondents were females.

In order to maintain confidentiality, respondents' names have been altered and numerical values added so that their identification as dyads is made easier (Table 4-1).

Analysis of data is organised as follows. Section 4.2 of this chapter gives an overview of the relationships from their conception. Section 4.3 provides an account of current dynamic forces that have an impact on both importers and exporters and that influence their relationships. These forces were identified by the respondents and were deemed important because of their impact on the way the exchange business is structured. The section highlights these challenges as faced by importers and exporters, and in Chapter 5 their effects on the relationships are examined and a model of the relationships between importers and exporters in the context of trade between Pakistan and the UK is proposed.

4.2 RELATIONSHIP DYADS

This section gives an account of the history and type of relationships between bed-linen, towel, and leather-apparel importers and manufacturing-exporters and describes the contexts of the relationships between dyads. The two industries, textiles and leather-apparel, were found to have many similarities. Both textile industry and leather-apparel industry had their manufacturing bases in UK and Europe but rising costs of production, and governance and compliance issues deemed their production unfeasible in the UK and production shifted to less-developed countries like Pakistan.

At the other end, Pakistan has its own ancestral source of cotton for textiles and livestock for leather garments. Both textile and tanning industries have well-established bases in Pakistan and have been the preferred choices for some of the well-known UK ex-producers who started sourcing internationally when manufacturing shifted out of UK.

On the marketing side, both industries have moved from their specialist niche positioning in the retail market to fashion items carried by departmental stores and supermarkets. This move has brought bed-linen, towels, and leather-apparel under extreme price pressures which altered the core of relationships between the dyadic partners. The global competitors for these industries are also similar, that is, they compete with India and China on a like-for-like basis. These similarities have been assumed to be the reasons for similarities of findings in the analysis of these industries.

Following three sections discuss the history of relationships between the nine pairs and are followed by analysis, which starts with the context of trade between the dyadic pairs as developed by the interviewees and the factors that have an impact on the relationships under study.

4.2.1 *BUK1 – BP1*

BUK1 has been working with Pakistan for about twenty-five years and was originally one of the founding companies to enter Pakistan for trade. BP1 were one of their first suppliers in Pakistan. BP1 is a well-established textile firm that started its manufacturing operations in the early 1900's and is a global supplier of bed-linen and cotton fabric. Its manufacturing activities involve all processes from the acquisition of cotton bales to the delivery of finished bed-linen and fabric to importers and retailers. BP1 is also vertically-integrated downstream and has its own chain of national retail outlets that supply quality home-textiles and fabric to the home market. It has an extensive design department comprising of design graduates who create designs for both bed-linen and fabrics. Their designs are

well-received in the home-market and their other export-markets but UK buyers do not consider their designs for purchase as they feel that Pakistani designs ...

‘..... are totally wrong for the European market.’

BUK1 is a family-owned venture, with the current owner taking over after the retirement of his father. BUK1 started its operations in 1973 and has since then been servicing mail-order and other prominent retail stores by supplying globally-sourced quality products to their home-furnishing departments. BUK1 quote themselves as the fourth-largest importers of home-textiles in the UK, with their customer-base spread across Europe, America, and Asia. They offer their clients a full range of services including designing, acquiring global sourcing, sampling, product range etc to final delivery to the retailer’s chosen location, and extension of credit.

At the time when the relationship started with BP1, BUK1 were importing very large volumes from Turkey, as well as Portugal, Hong Kong, and North Eastern China, but wanted to move to cheaper sources because of price pressures from their customers. The initial contact for the relationship between BP1 and BUK1 was made by BUK1 who met the owner of BP1 through a friend of his in Canada. BUK1 moved their supply-base to Pakistan in 1980-81. According to them,

‘...at that stage there were very few mills there who were capable of producing the type of culture that UK wanted...’

They initially found it difficult to generate on-term relationships with Pakistani manufacturers because they met with initial start-up difficulties since they found Pakistan’s textile industry to be in its infancy, where mills had only recently

started to acquire printing equipment. It was a very naïve environment on both parts. Though the UK importers wanted to import from Pakistan they were new to the culture there and felt that the manufacturing-exporters were very institutional in their approach. BUK1 found that

'Directional culture was quite restricted, very demonstrative in those days ...'

...where the mills would dictate terms, and express their intentions of avoiding change and adaptation. BUK1 maintain that this statement held true for their trading partners, BP1 as well. BUK1 felt that the BP1 owners:

'.... did not want to think particularly outside of the box'.

However, BUK1 feel that the tradition and culture has changed a lot over the years. At the time of its entry into Pakistan, BUK1 felt that although the mills there were large and well-equipped, the quality of the product was basic in that the market was volume-driven and the excess demand for their product by North Africa resulted in mills producing large volumes with little regard for quality. According to BUK1, the mills were very prosperous in those days because of their low costs of production and government support.

'They were the heady days of mills making some serious money that has enabled them over the last 20 years to keep constantly investing and generating growth...'

However, investment was directed mostly towards capacity building to cater to the high demand and fill quotas completely rather than development and

modernisation. BUK1 find that it was a hard period of growth when a lot of learning was involved on either side to understand and adjust to the other's needs and demands.

'But during that period of time it's been a painful growing period... it was a very difficult learning period to go through...'

During the same period, the owner of BP1 was very entrepreneurial and proactive and wanted to penetrate the European market for bed-linen. Investments in the mills had resulted in excess capacity and BP1 felt the need to search for new markets to utilise that capacity. His initial contacts were importers because he felt that UK retailers were not willing to deal directly with the mills in Pakistan and needed the buffer of the middlemen:

'...we started selling mostly to the importers, because we could not get into the retail as they were very shy of buying directly anything... they did not want to take the risk.'

However, BP1's owner was educated in the UK and found it easy to understand the retailers' concerns. He gradually developed lasting relationships with the managing directors of most of the large retail chains in the UK like *Marks & Spencer's*, *British Homes Stores*, and *Debenhams*. This gave him access to trading directly with the retailers⁷⁷ and he moved most of his business to direct supplies while he continued with BUK1 for accounts not approachable directly. These indirect accounts⁷⁸ continue to account for a substantial portion of BP1's trade with the UK and, therefore, hold great significance for them. BUK1, however, feel

⁷⁷ See Interaction 3, Figure 3-3

⁷⁸ See Interaction 1, Figure 3-3

that Pakistani textile-manufacturers neither possess knowledge about the UK market and retailers' requirements, nor do they have sufficient marketing skills to sell directly to retailers. According to them:

'We still may be about ten years away from the mills in Pakistan truly understanding the market requirements here, and in Europe... they are still used to the buffer of an importer being involved. If you take that link out of it... and the complexities we are working with now, it's a very dangerous animal'.

BP1 are one of the very few exporters of Pakistan who supply directly to retailers. Their ability to do so does not impact the focal dyadic relationship where BUK1 feel that Pakistani manufacturers do not have the experience needed to build an understanding of the requirements of European retailers. BUK1 did not mention BP1's direct involvement with retailers and the confidential⁷⁹ nature of the research did not allow for direct questioning on the issue.

However, both BUK1 and BP1 express deep understanding of the other partner's culture and market, and they believe that their partner also has a very good understanding of their culture. Based on the information solicited indirectly, if BUK1 were asked about BP1's direct interaction with retailers, they would have termed it as exception to the rule because of BP1's extensive knowledge and experience of UK market.

BP1's direct access to UK retailers shows that the complexities BUK1 talk about can be surmounted through better knowledge of the buyers and building up of

⁷⁹ Confidentiality was promised at the onset

personal relationships with them. Most second-generation mill owners in Pakistan have had their higher education from either the USA or the UK and can follow the example of BP1. However, not everyone has been as successful as BP1 in developing relationships and using their foreign experience to their advantage.

BP1's association with BUK1 was BUK1's first true relationship with a mill in Pakistan where BUK1 found grounds to build a common understanding, with the result that the two companies worked together towards mutual goals:

'... we would sit and decide, "look, we can't beat everybody in price; if you are, you are gonna start bastardising the product. Let's go the other way: let's give something for nothing. Let's give a better product for the same price rather than trying to be the cheapest and taking something out of it. And that as a cultural thing with the mills is a very important fact, because otherwise they are constantly being dragged down with this existing price war and it's so open and so clear: anyone who is the cheapest. So we try to go the other way and with our supply-chain, actually try to give something extra and try to push the value up... So we have to partnership there...'

Mutual trust and understanding developed between exchange partners. Personal relationships fostered to the extent that the exchange partners call each other good friends. This friendship is not limited only to the owner of BP1 (focal respondent at BP1) but also extends to his employees who interact informally and socially with BUK1 on his visits to Pakistan. BUK1 expresses that this social interaction and mutual friendship extends to other employees of his firm as well and fondly talks about BUK1's relationship with their group of friends at BP1:

'My understanding, particularly with the friends we've got, is that, between our relationship we normally ask for a lot more than I think a lot of other people do. I think my relationship, or BUK1's, with certainly our Pakistani friends and partners (referring to BP1) is quite close. We've been lucky to get to know people properly and personally and I think that cultural exchange now is so open; they (BP1) ask me as if they think I am a local whereas traditionally I think they will ask people who weren't from outside, for small favours whatever, we obey and we will do in reciprocal.'

Personal relationships between the two interacting parties are very strong and show the formation of social bonds that surpass business relationships. These social bonds show the development of the norm of reciprocity where each party is willing to extend favours and assistance beyond the call of business relationship and expects the same in return from its partner. The social act of reciprocity is extended to business interactions where partners look out for each other's interests and work towards mutual goals in order to reap mutual benefits.

There is also the presence of stereotyping where BUK1 continue to feel that Pakistani manufacturers are unable to reach and supply directly to retailers whereas BP1 show the development of healthy direct trade with the same. BUK1's attitude with regards to cultural difference and mismatches comes from their perception of hard work put in to understand the working climate and devise management procedures to accommodate their working partners.

4.2.2 BUK2 – BP2

BUK2 is conducting business with the second generation at BP2. BUK2's first contact with BP2 was with the present owners' deceased father who left his business in the hands of his two sons. BUK2 were registered with MCC⁸⁰ from where the late father of the current owners of BP2 acquired a list of importers and contacted BUK2. Thus, BP2 initially approached BUK2, after which BUK2 visited Pakistan to look at the potential of sourcing bed-linen directly from manufacturers: thereby starting a long-lasting relationship. BP2 were BUK2's first manufacturing partners in Pakistan and by the time of the interview BUK2 had increased their supply-base in Pakistan and were trading with six other factories besides BP2.

Both BUK2 and BP2 are well-established global businesses that trade with many countries. Relationship between the two firms is seventeen years old. BUK2 is a comparatively new firm that started operating in 1992 while BP2's history dates back two generations. The present owner of BP2 set up the current manufacturing unit in 1986 by revamping one of the company-group's dismantled factories and, since then, it has been manufacturing cotton fabrics for the local and international markets. BP2 produce home-textiles in large volumes for American, European, and African markets but their operations with UK are small as compared to the volumes that go to the USA, Africa, and European retail outlets like *Carrefour*. Within Europe, BUK2 are BP2's largest trading partners, since BUK2 are one of their major European wholesalers to supply to large departmental stores such as *Carrefour*.

⁸⁰ MCC: Manchester Chamber of Commerce

BP2 are vertically-integrated to produce yarn, home-textiles, apparel fabric, and fashion apparel and have recently added a chain of departmental stores in their home market under the company name. Their range of textile-production includes fabric, bed-linen, curtains, and kitchen textiles but they do not manufacture towels. BUK2 import only bed-linen from BP2. Like BP1, BP2 have a design department catering to the needs of their local and international buyers but, as is the case with BUK1, BUK2 do not purchase BP1's own designs and instead supply the designs, produced by BUK2's team of designers, for manufacture by BP2.

BUK2 initially started their operations in 1992 as wholesalers of home-textiles, importing from various supplier countries and supplying to high-street retailers. A year later, in 1993, they acquired a manufacturing unit in Portugal and began small-scale production of high-end bedroom home-textiles such as bed-sheets, curtains, and cushion covers. This constitutes a very small portion of their operations and caters only to high-end retailers such as *Harrods*. The owner of BUK2 operates the Portugal unit under a separate business while BUK2 acts as buyer and distributor of the Portugal products. For the most part, BUK2 import bed-linen, curtains, and cushions to supply to mainstream high-street retailers in UK and other West European countries.

Before their trade started with BP2, BUK2 imported bed-linen from Pakistan through independent exporters/agents⁸¹ who liaised between BUK2 and various factories to get BUK2's orders completed. BUK2 were unfamiliar with Pakistani market at that time and did not wish to risk dealing with the factory culture,

⁸¹ See Interaction 2, Figure 3-3

therefore, they interacted with the manufacturers indirectly through independent importers. After BP2 initiated business relationship with BUK2, BUK2 started buying directly from them⁸² without the need for independent exporters. Positive interactions with BP2 helped establish knowledge and understanding of Pakistan's supply-base.

The experience thus gained built confidence in BUK2 who then decided to trade only directly with manufacturers of bed-linen and, at the time of the interview, BUK2 considered themselves very settled in Pakistan. BUK2 consider their relationship with BP2 to be very important to them and hold BP2 in high esteem.

According to them:

'They were the one and only factory that basically gave us goods without any guarantee of payment and said "look pay us when you can". So ya, there was only really BP2 that did that for us.'

BUK2's strength lies in designing. The owner has a bachelor's degree in Design and decided to put it to good use by opening up a design department at BUK2. BUK2's design-team constantly scans European markets to keep up-to-date with latest fashion trends and create designs for retailers along the lines of market demand. The retailers are presented these patterns and designs and, upon approval by the retailer, BUK2 places orders with its foreign suppliers for manufacturing, while small-quantity high-end orders are given to the Portugal unit for production.

Members of the design team of BUK2 visit the foreign manufacturing-units at least once per season in order to ensure that a clear understanding of the

⁸² See Interaction 1, Figure 3-3

requirements of patterns and designs has been achieved by BP2. Thus, relationship between firms extends to other actors of either firm where employees interact on various matters within their job-related domain. The focal relationship remains between the owners in the dyad who are keenly involved in all matters of interaction. The relationship between the firms is marked by mutual decision-making, understanding, and close personal ties:

'...we sit down and plan... he will come and say "he is the customer; this is what he is doing: this (a product) he is buying from Turkey; this (another product) he is buying from India; this is the product" and we make a plan, a strategic plan, how to get this customer. So we will start working on it scientifically that this is the volume and this is the product and he is buying a hundred thousand pieces a year. So let's go after this product and this should be our price points and this is what we should do to presentations. We do strategic planning together.' (BP2)

BUK2 consider their association with BP2 to be a pleasant one concerning the relationship that developed between the two trading partners, and attribute their success to BP2:

'We recognise part of our success is directly from the relationship we have with BP2. I think as BP2 has grown we've grown on the back of it.'

The exchange partners have close personal friendships outside of the business as well:

'...because we had such a long, also personal relationship with BP2. He spent a lot of time here living at my house and when I am there I live in

his house and we've had social friends as well. I think it's just that I picked up there and also at the same time he picked up here.' (BUK2)

The relationship between BUK2 and BP2 shows commitment, long-term orientation, and social interactions that are personal and extend beyond the call of duty. The two trading partners are keenly interested in seeing the other succeed because they link their success to that of the partner. This is more evident in the case of BUK2 who feel that they were supported by BP2 in their initial start-up phase.

4.2.3 *BUK3 – BP3*

BUK3 and BP3 had their first meeting at the *Heimtextil*, a large textile fair held every year in Frankfurt. After that, BP3 were contacted by the now semi-retired father of the current owner of BUK3 and, from then onwards, a long and productive business relationship started between the two companies. Their partnership is twenty years old and the business has grown steadily since the first interaction.

At BP3, the father of the current Chairperson had set up initial operations in 1951 and the current Chairperson joined him after completing his studies. The manufacturing-unit is part of a group of companies and belongs to a family of industrialists who had been in business (different from textiles) even before India-Pakistan partition. Their chief products are yarn, fabric, bed-linen and curtains. BP3 initially exported grey fabric to the UK in the fifties and the sixties. Then they increased their exports to Europe by selling grey fabric to Italy, which was the largest buyer of grey fabric then, and then eventually to most of Europe. Later

they went on to sell to Australia and New Zealand as well. BP3 did not enter the United States market until recently, unlike other large textile manufacturers.

BP3 is vertically integrated to include all steps of manufacturing of home-textiles, from acquisition of cotton bales to the final packaged product. The group has a separate firm that manufactures and exports cotton apparel. Another firm produces fabric for apparel, which is sold in the local market and holds strong brand recognition. All three firms have extensive design-departments that create designs for the production-departments. However, BUK3 rarely buy designs created by BP3 and mostly provide their own designs with the orders.

BUK3 was set up in 1955 as a small manufacturing firm producing home textiles for speciality stores. When manufacturing in UK became expensive due to higher labour costs and stringent governance and compliance requirements, BUK3 closed their manufacturing facilities and became wholesalers and suppliers for major retail outlets. As importers, BUK3 initially continued supplying home-textiles, which they imported from international suppliers, to the speciality stores that they were servicing when they were manufacturers. Later, BUK3 added departmental stores to their client lists, once these started gaining momentum. BUK3 offer their clients all services including designing, warehousing, packaging, tagging, delivery, credit etc and also provide the option to tailor service requirements according to clients' needs and resources.

BUK3 boast of a well-established design department, which was originally established during their manufacturing days. This design department creates designs for retailers, and upon approval of the designs by the retailers, BUK3 get

the designs manufactured from their international suppliers. Like BUK1, BUK3 were one of the first companies to go into Pakistan for trade and faced initial learning cycle with BP3 and three other firms, thus, they share BUK1's experiences:

'It was a privilege buying then and the mills were actually making a lot of money in those days because they had a very set cost culture that enabled them.' (BUK3)

They initially found it difficult to set their footing in Pakistan and had some rough incidents with a couple of firms before they discovered BP3 and their true relationship started from there.

'... with BP3 we quickly developed an understanding where we were able to see a common future together. They had the management and they had the mentality that we found easy to work with... '

BUK3 feel that strong relationships have developed over the course of time and BP3.....

'... have become very educated with people like us who have worked very, very hard with trading partners, you know long-term relationships where we've been working with the same mill for 10 or 15 or 20 years and not have any break, consistently dealing with our supply-chain, and we work with each other so closely you can actually feel what's gonna happen next. You know they are gonna come back because there is a price increase on freight or more importantly with certain mills you know they are not going to because they are decent people and because

they know it's gonna go down in three months and they'll ride the wave because it's part of the business package.'

BP3 reciprocate their partner's sentiments:

'So I must say BUK3 is the company that has been there; the oldest. And I am sure the whole Pakistan must have approached them and tried to.....(build business relationships). You can only have the relationship with certain people who stand there with you. I am not saying for the prices: we never go down lower for the prices, never. Every year it is standardized that we increase our prices. They think, because of our services, our quality, and of course, they know that we always tell them the truth. Real relationship is based on the strength of the company and its management.'

Both partners are seasoned players in their respective fields and have many years of experience considered as a resource accumulated over a long period of continuous interactions, and both value the relationship they have built as a result of these interactions. A strong link is seen between business and social relationships where one reinforces the other and mutual benefits are seen as the outcome of both.

4.2.4 TUK1 – TP1

The relationship between TUK1 and TP1 is almost twenty years old and goes back to the time when UK had recently started considering Pakistan textile industry as a cost-effective source of supply for towels. TUK1 started its operations in the UK in 1949, at a time when towel industry in Pakistan was

practically non-existent. Then, in 1992, the owner of TP1 was on a visit to England when he met with the owner of TUK1 whom he invited to visit Pakistan as a potential supplying country for towels. TUK1 were looking for cheaper sources of towels and on TP1's invitation the top management of the company went to Pakistan for two weeks and interviewed around thirty different towel-manufacturing and exporting mills whose names they had acquired off a list of towel-exporters from Pakistan Embassy in England. They narrowed down the list to about ten suppliers, visited them, and picked what they assumed to be the best two manufacturers, TP1 and one other company.

'Both companies have stayed with us. Other companies we've had business relationship with did not work and we broke it off but these companies we've stayed on for 17 to 20 years approximately.' (TUK1)

Although they admit that at that time the factories in Pakistan were not well-established, their experience with the two exporters has been a pleasant one and they have continued business with them.

TP1 started operations as a trading venture, involved only in exports of towels. It was established in 1973, during the early years of the towel industry of Pakistan, by the late father of the current owners who are two brothers looking after production and marketing respectively. The respondent from TP1 joined his father in business in 1979 and since then he has been involved with marketing and export. When TUK1 started interactions with TP1, TP1 were exporters in the process of setting-up their own manufacturing unit and becoming manufacturers of towels. Over time, TP1 have become one of the premier towel-manufacturers of

Pakistan and their products compete well with global known manufacturers of towels.

TP1 are vertically integrated to produce towels from bales and have modern equipment for spinning, weaving, and all other stages of towel-production. Their well-established design-department is constantly involved in scanning local and international markets for creative inspiration, and creates designs for the production-department. Within Pakistan, TP1 own a retail chain in major cities, which carries TP1's designs and production, and is priced upwards to reflect TP1's high quality. In early 2007, TP1 set up a new towel-manufacturing plant, which is equipped with state-of-the-art technology and is considered at par with towel factories of major high-end suppliers such as Portugal and Turkey. TP1's success is the result of their forward-looking and aspiring co-owners and their professional management team.

TUK1 are world leaders in textiles suppliers⁸³ and supply to major retailers in the UK and across the world. They are the largest stockists and wholesalers of home-textiles in the UK, with a strong base of suppliers and sound financial stability. TUK1 pride themselves in having an excellent design department with a big team of designers who stay abreast of latest fashions in apparel and textiles. Their design-team prepares designs that are presented to retailers, who make their selection based on fashion trends and expected consumer demand. According to TUK1:

⁸³ Their supplies of textiles – home-textiles, including bed-linen, towels, rugs, and fabrics – are globally sourced

'We've got design studio with 32 designers, we've got 3 showrooms that hold our products at Olton. We've got 12 sales managers, all the admin people, accounts people as well to sell the goods and sourcing team as well to source.'

TUK1 also maintain a design archive, which holds thousands of designs including their own artwork. Their design archive is one of the largest in the industry and is protected on a *'sophisticated management computerised retrieval system'*. This database acts as an inspiration to both the design-team as well as the customers. TUK1 rarely consider the designs created by TP1 and instead provide their own retailer-approved designs for manufacturing by TP1. However, TP1 designs are well-received in local and most international markets including North America.

TUK1 are vertically integrated, with a small manufacturing unit in Portugal and a small chain of specialist retail outlets, also in Portugal. They offer a complete textile package for the home, where 90% of their sales are due to imports and the remaining 10% of sales come from retail outlets that TUK1 owns in Portugal and that only carry home-textiles designed and manufactured by TUK1 in their Portugal factory. Those are the only retail outlets that TUK1 has since they feel that having their own retail outlets in the UK would result in direct competition with their retail customers, which would adversely affect their relationships with them. TUK1 also supplies its home-textiles, manufactured in the Portugal factory, to top-end retailers in UK, like *Harrods*, that do not compete with their mainstream clients, whose supplies are sourced by TUK1 through imports. Thus, TUK1 play three roles: as designers of home-textiles, as middlemen for foreign

manufacturers catering to UK mainstream retailers, and as manufacturers, supplying their own products directly to UK high-end retailers.

Relationships are strong and personal between the exchange partners. The Pakistani partners place heavy emphasis on personal contacts. According to TP1:

'...relationship building is after work. My relationship is not that I do business with them. I make them my friends first. Once you are friends with them the business automatically comes. So my friendship development doesn't happen when we are sitting here. No, it happens when we are sitting in a restaurant, when we are sitting in a bar, when I am sitting and playing snooker with them. This is outside business. You are not doing business with them anymore. You are now friends: friends talking to each other.'

TUK1 reciprocate TP1's statements:

'...our families have met and are friends. We stay at each other's houses when we visit. Our families go out together for dinner. We are very close personally.'

TP1 believe that strong business relationships are the result of social interactions and healthy personal relationships. Business is not restricted to the office and evolves out of good relations and strong personal ties.

4.2.5 TUK2 – TP2

TP2 is a small-scale producer of towels catering to the export sector of the economy. About 85-90% of its sales are export-based. TUK2 are stockists and

wholesalers who supply home-textiles such as bed-sheets, towels, cushions and covers, and bath-robos etc to hotels and laundries in Europe.

TP2 started operating in 1998 as part of the informal, unstructured sector of textile industry of Pakistan, representing the new small firms that have emerged in the wake of large profit margins and substantial government duty-drawback schemes. Gradually, they have developed to acquire essential equipment and procedures needed to qualify for minimum compliance requirements and are, therefore, able to export confidently to international buyers who have more relaxed compliance demands. TP2 do not have spinning facilities and purchase yarn from local suppliers, which is woven on their weaving facilities to manufacture towels for their local and international clients. They do not have an extensive design department and produce simple designs, mostly based on the requirements of their clients. Nevertheless, TP2 have a well-established factory in its own right and have a comfortable customer-base in Europe, which accounts for 90% of their exports.

TP2's trading partner, TUK2, was set up in 1989 and is a family-run business of father and son who supply textiles like towels, bath-robos, bed-linen etc. to the laundry and hotel industry. TUK2 initially started buying towels from Europe, specifically from Portugal and Italy, and supplied only to hotels, but have diversified further to supply to laundries as well for the past fifteen years. Over the years they have increased their operations and have also become stockists, with ownership of three warehouses in UK. They do not supply to retail outlets and feel the two businesses are completely different. Their target hotels are four-star and five-star hotels and some of the six-star boutique hotels as well. The hotel

market for textiles has a quick turnover where new stocks are bought and old ones replaced constantly.

The owners of the two companies met at *Heimtextil* in 2005. In fact, all the textile exporters of this research report that they have stalls in *Heimtextil* every year, not only because it offers a good opportunity to meet prospective buyers but also because it is a good way to advertise their companies and show their presence in textile industry. As with other textile importers, at the time of their first meeting, TUK2 were searching for cheaper sources of supplies. At that time, they had primarily been sourcing from Portugal and Turkey – and continue to do so for their higher-end customers like *Hyatt* and boutique hotels. According to TP2, after their meeting at the fair, the owner of TUK2 visited their factory and:

'They liked the way we worked, our product, and thought us sincere. We proved their beliefs...'

The relationship started with very small orders and has grown substantially. The owner of TUK2 did not visit TP2 again after his first visit and his Purchasing and Quality Manager has been handling towel purchases since then. Therefore, the manager was selected as the key informant. The manager has never been to Pakistan and he was told by his boss that:

'It will be a life changing experience for you.'

TP2 had not been to UK for the past five years and has never personally met the manager. However, they have developed a close understanding and say that they have become friends over the telephone. TP2 say:

'(The manager) tells me that the owner of TUK2 would like to put up pictures of me all around the office because he feels that the best product from Pakistan is manufactured by us. He says that I am committed, open, honest, sincere, and loyal and that I listen to their suggestions and implement them quickly. So I think he likes me.'

TUK2 shows a lot of faith and trust in TP2 and there is a genuine feeling of informal relationship between TP2 and TUK2:

'With TP2 we have a sort of very informal relationship where, when we pick up the phone, for the first 10 minutes we simply chat. He goes, "Jim how are you..." and I quickly warm up to him as a person because he is refreshingly honest, to be quite honest, and open, and I find him very easy to talk to...'

And TP2 say:

'Most of my work is client-based and I pride myself on the relationships that I have with all my buyers.'

While TP1 feel that business relationships evolve out of social and personal relationships, TP2 and TUK2 have not met personally but their continuous interactions and satisfactory business dealings have resulted in a situation where both trade partners have developed understanding, mutual respect, and an informal work atmosphere.

4.2.6 TUK3 – TP3

TUK3 are manufacturers, importers, and distributors and have a chain of distribution network across the North of England, which supplies towels, among many other lines of products. Their manufacturing operations consist of importing fabric, which they stitch into home-textiles and supply to various outlets. They also import finished textile products for their customers. Their clients include retailers, hotels, salons, health clubs, and hospitals. TUK3 source their fabrics and home-textiles from Pakistan, China, and India.

TUK3 was founded in 1976 and came to Pakistan looking for a supply-source of towels for its clients. Its relationship with TP3 is five years old and it has been constantly sourcing from TP3 since the start of the relationship. TUK3 feel that:

'Pakistanis are very good at contacting you and they will come and see you. We are quite an open company and we'll see most people. So they come and talk to us and we talk business, places, importers they are dealing with in the UK, and we will take it on from there.'

Since TUK3's entry into Pakistan is recent, like TUK2, they do not share the same history as BUK1, BUK3, or TUK1.

TP3 is a small towel-producer, based in Karachi, which was founded in 1971 and has preferred to stay as a small-scale mill in the cottage industry. Like TP2, TP3 have put up systems in the firm that meet minimum compliance and governance requirements and are thus able to supply to international clients. The company is run by the father and three sons who look after exports and finance, dyeing, and purchases respectively. The son in charge of exports visited TUK3 in England and

showed samples, which were then approved. TUK3 has constantly been sourcing from TP3 since then. TP3 visit TUK3 about four times a year and TUK3 also come to visit them at least twice a year. The regular contact has helped build relationships in five years but TP3 feel that these relationships are not personal.

'We have got to know them and they have also got to know us but personal relationships have not developed. I have lived many years in the UK; I don't have any white British whom I can call a friend. Friendship never developed in the way you would define friendship. They are prejudiced against us, they don't like us from the inside. I have stayed there since 1960, I don't know what is the problem that they have. One thing that they say is that "you become very competitive". There was this person who had a furniture store, he used to say "if a Pakistani would come and sell next door, he would sell it for £10 while I could have sold it for £20, we don't like that". So there are many reasons like this, it has reduced over the years. There was a lot of bias at that time.'

TUK3 talk about having good relationships with TP3 but they also do not mention personal relationships. The atmosphere is strictly professional between the two exchange partners:

'We have a good relationship with TP3. They are trustworthy and we rely on them to deliver the products according to specifications. It works well for both of us... we know they will never knowingly harm us or try to cheat us...'

In fact, this is the only dyad in the sample that does not boast of personal relationships though they acknowledge social contacts between the two:

'They take good care of us when we visit them... they look after our safety and conveyance and take us out for dinner. And we do the same when they come here...' (TUK3)

This is in contrast to TUK2-TP2 dyad who have never met each other and yet have developed informal personal ties. Similarly, TP1 believes that binding professional relationships are an outcome of strong social and personal ties. Though TP3 and TUK3 meet on a regular basis and have constant business interactions, close personal ties have failed to evolve. Many factors could account for the failure to do so, such as past experiences, attitudes, personal characteristics, work environment, and a mismatch of values, among others.

4.2.7 LUK1 – LP1

LUK1 and LP1 started their relationship when LUK1 visited Pakistan about eighteen years ago and found a leather manufacturer in a company called NL (name altered). LUK1 worked with the company for a year but the relationship did not work and they moved their business to LP1 with whom they have continued their business up to the time of the fieldwork for this thesis. In 1961, LUK1 started their operations as tanners and manufacturers in the UK, but when tanning in UK became infeasible and manufacturing became expensive, LUK1 closed both operations and decided to source supplies for their clients internationally:

'Primarily we work with leather garments and Pakistan has ancestral source of their own leather which is a key part to our business.

Whichever country we go to we work with their ancestral leather.'

Hence the reason for LUK1 choosing to work with Pakistan. LUK1 are wholesalers and distributors of leather-apparel but since their expertise lies in leather tanning, they remain keenly involved in their suppliers' tanning operations and provide knowledge inputs during the process. To this end, they advise the suppliers on chemicals, dyes, and processes and oversee all QC matters in order to get the finish to their satisfaction. Apparel design input is also provided by LUK1 who have a design-team that transfers latest fashion designs to leather-apparel, which, upon approval by retailers, are sent to Pakistani manufacturers for manufacturing. At times, retailers provide their own designs and LUK1 get these manufactured at the suppliers' manufacturing units.

In around 1990, LUK1 went to Karachi and visited the UK Embassy where they sought out major players who were large manufacturers with their own tanning facilities. They chose five factories with whom they developed working relationships. Their style of doing business from Pakistan was to prepare their designs for leather-apparel, take these designs to Pakistan, assist tanneries in developing the finish on the leather, place orders with the factories for garment manufacturing in Pakistan, and bring the garments into the UK to sell them to customers. LUK1 say that:

'We develop leather. The secret of our business is we develop leather.

That's what we are strong at... fashion, new trends, performing leathers.'

In order to do that, LUK1 work with tanneries to develop different types of finish on hides which, according to them, is something Pakistani tanners cannot do by themselves since they do not have the knowledge and expertise. This means that though LUK1 do not take ownership of tanning and manufacturing, they work closely with both operations and provide inputs at every step of the way. In other words, LUK1 get their work done under strict supervision and are very involved in suppliers' operations.

Most of the Pakistani tanneries are vertically integrated in garment manufacturing so many of the large leather-apparel manufacturers in Pakistan have their own leather tannery support. In their selection of suppliers, LUK1 prefer to select such companies because then it is easier for them to develop leather, prepare designs, and get the garments manufactured with the same company of people.

On the exporters' side, LP1's original tanning business was set up in 1961 by the father of the current owner who now runs the business. LP1, their leather apparel-manufacturing unit, started operations in 1975. It is, therefore, vertically-integrated and owns both its leather-processing tannery as well as its garment stitching unit, which is in accordance with the requirements of LUK1. LP1 also own a national chain of stores specializing in leather-apparel and leather-goods for the high-end of the local market. LP1 have been supplying to middle, upper-middle UK market since their entry into leather-apparel manufacturing, but their expertise lies in leather-processing and majority of their exports is in processed leather, which they supply to the world market. LP1 say:

'primarily our family and brothers are educated leather technicians, so because of that background we have invested a lot in technical knowhow that family members have gone and learned from Italy, England, leather technology.'

LUK1, on the other hand, feel there is a lack of expertise and skill in Pakistan regarding the development of leather:

'... the biggest difficulty is sticking to the standards. It's still very difficult for us, still very difficult to meet the objective standard regularly in consistency. You just have to keep going all the time.'

The exchange partners enjoy a long-standing relationship, which has evolved into personal friendships over the years.

'...we go sailing with their owners, we visit their owners, we go to their manager's home for dinner... They are very receptive people and they look after us, we socialise, go for dinner, meet their families.'

4.2.8 LUK2 – LP2

LP2 started leather-apparel export business with the UK in 1984 through a relative who lived in UK, and gradually established themselves as suppliers of leather-apparel to major high-street retail stores. UK is the biggest market for LP2's exports:

'Our best market, for my company, is UK. And it's growing also, so we are very optimistic as compared to our other traditional markets like Germany and France.'

LP2 do not own a tanning unit and buy finished leather from tanneries to manufacture leather-apparel for exports. Their manufacturing process involves designing, cutting, jacket assembly, and trimming (finishing)⁸⁴, after which the goods are packed and shipped to importers. The company is traditional in its manufacturing and, therefore, leather-intensive. Their trading partner, LUK2, came into existence in 1978 and according to the owner:

'I have had training in designing and decided to put it to use so I set up this leather business and created designs of my own. We now design our own leather garments and supply to major high-street stores in UK.'

As with other importers, LUK2 submit their designs to retailers who make their selection and LUK2 get these manufactured by their offshore suppliers and import them into UK. The owner's son, who is the current CEO of the company, joined the company after completing his studies but the owner still plays an active role in the company's operations. Thirteen years ago, LUK2 decided to add leather home-interior products to their range of leather-apparel and in 2005, they opened up an online store to sell their own brand while they also continue to supply to major fashion-retailers on the high-street. LUK2 and LP2 trading relationship started five years ago when LP2 visited LUK2 in the UK, showed them samples of their production, and invited them over to Pakistan to visit their factory. LUK2 took up the invitation and studied other manufacturers:

'We looked at the quality of jackets, history of the firms, reputation, source of supply, and their capacities and facilities...'

⁸⁴ A process called CMT: cutting, making and trimming

They selected three exporters one of whom was LP2. They have been doing business with each other since and both are pleased with the relationship and foresee a future of trading partnership together.

The owners of LP2 and LUK2 do not interact as often as do the owners of other dyads in the sample. The Account Managers of LUK2 directly communicate with the Merchandisers or Marketing Managers of LP2 about matters of sampling, production, and quality etc.

'Actually, owner-to-owner there is hardly any discussion. From our merchandising team, they contact their merchandising team. So they are in contact... And if there is a problem on price and there is something very important, then me as a chief executive and the chief executive of that company, we intervene and we discuss...'

The key respondent from LUK2, therefore, is the account manager who has built up a relationship with LP2 and who was contacted for this research on recommendation of the owner of LP2. On socialising, LP2 had some strong opinions:

'... we are friends yeah, but he will not give me orders if I don't perform. In this business the last season's performance is very important. If what I deliver right now is not very good then my chances of getting orders for next season are lessened. It's a very professional relationship... yeah we socialise; I take him out to dinner etc. He also takes me out for dinner. We have drinks then we eat and I think that's the only part of socialising... I drink so that's not a problem, but there are lots of

suppliers who don't drink so it is not an issue. It has nothing to do with business. I have to perform in my quality and my product. If I don't perform in that and if I try to increase my relationship with my customer socially, that would have no effect.'

LUK2, however, believe in strong personal relationships that help during times when errors happen and corrections need to be made:

'To have a personal relationship within business is important as well because you don't just cast aside when things go wrong and in our industry it's a natural product, lots of things go wrong. Sometimes they are solvable, sometimes they are genuine mistakes, sometimes they are totally inappropriate in relation to what we are trying to achieve... I mean totally incompetent sometimes. But you know with the working relationship and the friendships that we built up with Pakistan we don't just cast it aside and it's definitely the strength of that... There are people I know in Pakistan supplying good customers in Japan and the Japanese people coming and working in Pakistan has a lot to do with the relationship they build up. They wouldn't be there just for business I can assure you.'

In other words, LUK2 believe that Pakistani businesspeople are good at building and maintaining personal relationships that help make the exchange relationships stronger whereas LP2 realistically believe that quality of the product is key to successful business and no matter how good the relationship, if the product is not good then the business will not last.

4.2.9 LUK3 – LP3

LP3 are an established tannery business that began operations in 1980 in Karachi. They were initially mostly involved in leather tanning and had a small insignificant garment-manufacturing unit. Around 1998-1999, they decided to invest in their apparel unit and develop it further. Their manufacturing operations are significantly established now, along with their thriving tannery operations. The vertical integration gives them the competence to produce their own leather for orders received.

Their partnership with LUK3 is 10 years old. LUK3 was formed in 1985 and has been importing leather-apparel and jackets into UK ever since. LP3 describe their relationship-development with LUK3 as slow and gradual:

'Initially, like all start-ups, we traded in small quantities to develop trust and understanding but for the last three years we have been working continuously... quantities of course vary but we have been in contact and there has been an improvement in the past 2-3 years. The business has become more regular if you look at ten years ago we used to have just one-off orders but now we are in regular contact with their offices and there is regular designing happening.'

LUK3 were a large family business and had their leather tannery and leather-apparel manufacturing-unit in UK, with six-hundred employees. About twenty-five years ago restrictions on manufacturing and the rising costs of production led them to shut their manufacturing operations and source supplies from countries like Pakistan, which they considered to be a good source of leather. They have

retained their design operations and continue to design leather apparel for retailers. They initially found it very hard to set up partnerships in Pakistan when they first entered the market. They had some bad experiences with quality issues where retailers refused to accept deliveries because they did not meet the agreed upon standards. Eventually, they managed to settle down through accumulated experiences and learning, and finally met with LP3 with whom they developed an understanding and have gradually built a relationship ever since:

'There are two mentalities. There is the western retail purchaser and then there is the Pakistani manufacturer and somehow putting them together within the time scale is what we are good at.'

LP3 are keen to increase their business with LUK3 and are puzzled as to why the size of orders has been considerably small, though regular. LUK3, however, are happy with their relationship with LP3 and intend to maintain the status quo:

'The work relationship we have is very good with LP3, even if we don't predominantly succeed in selling them. In one year we might do less business than the year before, I have never known them to treat us any differently. They are very, very receptive, very good, very honest in relation to organising and planning.'

LP3 believe that relationships can act as governance structures to safeguard the interests of both parties without the need for explicit written contracts:

'If there is trust... then you can even have a moral contract with such a party, not necessarily a written one, stating for example that you will not go into their market. From a business point of view, you can distribute

yourself in other areas where you feel there will be no conflict of interest to limit the risk... Sales diversification is always good but as a company policy we prefer creating relationships rather than using other options.'

This shows that both companies to the dyad show long-term orientation and feel that social and personal relationships play an important role in building trust and commitment in the overall relationship environment. Past positive experiences lead to trust and establishment of norms that act as governance structures.

4.2.10 Summary of Perceptions Regarding Relationships

Important points reflected from the analysis of the nine dyads show that strong relationships have been built over the course of five to twenty-five years where relationships were initialised according to the need to enter new markets, as in the case of exporters, or to find cheaper sources of supply, as in the case of importers. Thus, in accordance with the interaction model, both partners were active seekers of their counterparts.

There has been a lot of investment in learning about trade with either country in general, and specifically about trade with individual dyadic partners. The analysis also shows that while the major timeline of events described by all firms is consistent, the perception about each other's performance varies. While manufacturing-exporters consider themselves to be innovative and forthcoming with their advancements, the importers feel that Pakistani exporters were traditional and set in their ways, happy with their volume-based markets and not

particularly interested in adapting to the smaller markets of Europe. According to BUK1:

'...quality was, yes, a word they understood but didn't actually employ because it was price-driven and they were in the market for institutional side where they wanted. ...and when we went to them, going "look, we'd like 10 – 40 containers or a hundred and twenty thousand quilt-cover sets of these four designs" no, too complicated!'

Their trading partners BP1, on the other hand, were keen to enter the European markets in order to increase their customer-base and had a breakthrough when a large hypermarket in Holland started buying from them in the eighties. Then they gradually started selling to Italy and then to France while UK was the last to enter their customer-base. BP1 have also been the first in Pakistan to set up shuttle-less looms and modernise their mills in the eighties. Similarly, while LP1 call themselves leather technicians and place their product at high-end of the market, LUK1 say that:

'In Pakistan they need ideas; they need leads because they are not that ingenious in relation to development ...'

These historical accounts also show the presence of **asymmetric power** in the textile industry where, in the eighties, the manufacturing-exporters were in a position to dictate terms-of-trade. This power-imbalance was the result of three factors: firstly, the competitive prices that Pakistan textiles and leather-apparel industries offered because of their set cost structures, government incentives, and low competition; secondly, the high market potential in the form of the CACs and

the vast USA markets that required large volumes for which the industry was well-suited; and thirdly for textiles, there were quota restrictions that allowed restricted quantities to be exported and all the firms in this research were utilising their full share. They, therefore, did not have the incentive to work harder on UK accounts. The manufacturers were, for the most part, not keen on servicing small markets in the eighties because their factories were geared towards larger volumes. BUK1's efforts to import from Pakistan and to tailor the product to UK's requirements were met with resistance where they were told that:

'...this is what we do and this is how we do it...' (BUK1)

Their trade partners, BP1, supplied large volumes to European hypermarkets like *Hema* and UK was the last on their list as an export prospect. UK importers, on the other hand, were keen to import from Pakistan because of the price advantages it offered over their current suppliers.

With the power balance tilted towards the suppliers, the importers had to be more aggressive in order to secure cost-effective supply-sources in Pakistan. The market forces of supply and demand favoured the suppliers and importers found that they had to take the upper hand in order to build relationships and secure supplies. They achieved this through offering support and know-how and the incentive to increase business prospects by working together in synergy, and through mutual collaborative efforts to secure more accounts. For instance, BUK1 and TUK1 would

'...chalk out a strategy on how to approach new clients.... by developing new designs and products in more-cost effective ways...' (TUK1)

Importers developed strong relational ties with their suppliers and extended favours out of the bond of duty. Importers who initially had manufacturing operations of their own, but had terminated their manufacturing operations and gone into imports and distribution, sent over some equipment that had become redundant. For example, BUK3 and TUK3 each sent some machinery that they did not need any more over to their dyadic partners. BUK2 bought new equipment for their partners:

'We sent bits of machinery out there; whether it's scanners or photo spectrometers or weighing machines – where mills have done it – or metal detectors that were not very popular (in Pakistan).....'

With further increases in production capacity within the country, and the number of suppliers, European markets started to become attractive and manufacturers sought out UK importers to increase their customer-base. Power asymmetry at that time worked to BUK2's advantage because of the support they got from their trading partners who were in a position to hold the upper hand and to help BUK2 develop as their importers for UK. However, as competition has increased and more sources of textiles have become available over the years, this power imbalance has shifted towards the buyers and, as a consequence, towards the importers who now have more global suppliers to choose from and have become more aggressive in their price points.

The leather garment industry also filled big volume orders for the CACs and Africa but its sales were not sufficiently large enough to provide it the competitive edge that the textile industry enjoyed. As a result, leather-apparel manufacturing-exporters were dependent on UK importers to provide them access to UK markets

in order to increase their customer-base. Thus, a dependence-induced power inclination towards the manufacturing-exporters is not clearly evident, unlike the home-textile industry. However, UK importers appear to hold technical knowledge-based power over their trading partners because of their critical knowledge inputs in manufacturers' major processes. Thus the importers power balance appears to be tilted towards the importers due to market-dependence and technical know-how.

Thus, LUK1 have power over their suppliers because of their experience in the leather industry and the expertise they have acquired during their production days in the UK. LUK3 also eventually acquired it when it found a firm footing in the leather garment industry. Non-acceptance of Pakistani designs by the UK customers gives leather-apparel importers an edge over Pakistani manufacturers because of importers' critical inputs in designs, more so in leather-apparel manufacturing than in leather production.

The next section talks about the changing forces of the market and their influence on relationships between the UK-Pakistani dyads. It emphasises the excessive price pressures on exchange dyads as a result of dynamic changes in the market structure and later sections study their consequences.

4.3 CURRENT CONTEXT – FORCES AFFECTING RELATIONSHIPS

A context of the environment within which dyadic importers and exporters perform their activities developed through the interviews and all the respondents

highlighted factors of change that were altering the shape of their market structure and affected their activities, including relationships within their supply-chain.

Analysis revealed that factors such as strong price pressures on the manufacturers and importers due to change in retail market structure, on-line sales, and global competition have a profound effect on the importer-exporter relationships. Importers are further threatened by the retailers buying directly from the manufacturers or opening their own buying houses in countries where manufacturing takes place. The importance of these factors on shaping the relationships under study warrants an explanation of their presence and impact.

This section first elaborates upon the retail and on-line competition and then discusses the effects of buying houses and direct buying on importers' business, and finally explains the competition faced by manufacturing-exporters of textile and leathers garment industries.

4.3.1 Retail Competition

Competition has increased in the UK retail market for textiles and leather garments with departmental stores and supermarkets entering the scene. Where initially specialist stores and mail-order companies carried textiles and leather jackets were sold in specialist leather shops now there are the departmental stores that have started selling leather jackets, bed-linen, towels, and other home textile items and these give tremendous price competition to the previous stores. The big companies that the importers under study would supply, people who historically were large mail order companies, like *Littlewoods*, *Great Universal Stores*, *Freemans*, *Empire Stores*, and *J D Williams*, used to hold about 60 to 70% of

entire textile business for bedding⁸⁵. By 2008 their share had fallen down to 12%⁸⁶. Supermarkets that initially did not sell non-food items started carrying all types of products creating a one-stop-shop concept. Quoting BUK3:

'And that's straight and untold competition if you think of their retail outlets just for the supermarkets and saying well ok; they didn't use to sell home textiles.'

While in the eighties there were around three-thousand retail stores selling home-textiles in the UK, by 2008 there were six and a half thousand because of the inclusion of supermarkets⁸⁷. Leather-jackets and other garments were exclusively sold in speciality shops but now they are available in departmental stores and even supermarkets while speciality leather stores have gone out of fashion. Compared to speciality stores, supermarkets are very big, buy in big volumes, and give very good value for money.

The quality of home textiles offered in these supermarkets is mixed, with both very high thread-counts of T300⁸⁸ to thread-counts as low as T120 and T144 for bed-linen and 300GSM⁸⁹ to 600GSM or higher for towels. These supermarkets would offer the T300 bed-linen, for example satin and jacquard, at very commercial value and at one third the price offered at departmental stores, the only difference being in the branding and the packaging. The prices offered by

⁸⁵ Figures were quoted by the interviewees.

⁸⁶ Ibid.

⁸⁷ Figures were quoted by the interviewees.

⁸⁸ TPI: thread per inch - measures the fineness of fabric by counting the number of thread per square inch along both the length and width. In bed linen fabric, T150 is considered 'standard', T180 and higher good-quality, and T200 and above is percale.

⁸⁹ GSM: Grams per Square Metre. Measures the density of towels. Higher GSM means thicker, heavier, and more absorbent towels.

these supermarkets are very competitive and this has forced many speciality-stores out of business:

'...if Tesco ever get their act together and present what they've got well through the marketing side, they would actually be very dangerous to a huge amount of people in the retail environment.' (BUK1)

Supermarkets have brought the price of leather-jackets down to sometimes as low as £12 for a leather jacket made in China. Pakistan has good quality leather which is fetched at higher prices. The price pressures are felt by both the importers and the exporters as retailers demand even lower prices to keep up with price competition. A jacket retailed at £199 is delivered to the importer at £20 and the importer would supply it forward to the retailer at a price around £30. Highest margins are kept by the retailer who also has higher cost structures than the importer.

The new merchandisers of superstores who have entered the retail sector are not leather specialists and do not differentiate between the quality and type of leather. For these merchandisers a leather jacket is a fashion item with fashionable looks, style, colour, and feel of leather, and most importantly competitive price.

According to LUK1:

'Some of the buyers I meet in superstores, they expect me to deliver 3 metres, 54cm wide for them to go test... They don't even understand it's a skin, so the buying mentality has changed dramatically. The long-term relationship we had with Next and John Lewis and Lakeland and selective people like that, they understand their business. It's very

different in your working relationship but a lot of the new people, the companies, they just want leather jacket and if it is pig nappa or sheep nappa or goat nappa they won't understand; it's a black jacket and it's a price and that's it. And the mentality has been driven downwards in the UK dramatically now for the last 5 years. Price points have been driven down.'

Importers who have been in leather business for more than twenty years find it very frustrating because they specialise in making different qualities and appreciate what kind of animal a certain quality can be acquired from. For example, the merchandisers may ask for long coats in leather that comes from small animals that do not have the length and width to support the size. They also demand very competitive prices for certain leather qualities which, according to the importers, are not available within those price points.

Buying patterns of consumers have also played their role in accordance with the changing retail structure.

'25 – 30 years ago you wore a leather jacket you lived with it, it lived with you. It grew on you, you mould it... it lasted 20 years. They don't do that, not anymore, unless the older middle-age; the young people... it's a throwaway society.' (LUK3)

Whereas a leather jacket was meant to last a long time twenty-five years ago, it is now viewed as a fashion item, which must be replaced every year. Younger consumers do not want to be seen in the same leather jacket the next year and this

means that prices have to be low enough for consumers to buy a jacket for a year and then to discard it next year.

4.3.2 *Impact of the Internet*

Internet has caught up to sales as well with customers looking for deals on the net and surpassing the specialist stores to get the cheapest price possible. Search engines compare prices in various stores and provide customers with very cheap deals not easily matched by brick-and-mortar stores. Companies such as *Wallace Sacks*, whose USP⁹⁰ is “On-line specialists in Egyptian cotton” (WS, 2009) have improved their sagging sales by providing shop-direct facilities to their customers. Comparison-shopping on the net gives consumers an added advantage of shopping globally and this further increases competition for local retailers. As BUK2 said:

‘This comparison shopping which we do as a consumer now, it is very much not just a domestic issue; it’s a global thing now that everybody is using the web.’

Consumers can buy a vast variety of products including home textiles and leather jackets through online stores and on auction sites like eBay from around the world, and with great cost-savings.

4.3.3 *Competition Faced by Importers*

Internet’s effects do not remain limited to the retail stores only but have an impact on the importers’ business as well. Importers’ customers, the retailers, are well aware, through the internet, of the prices the importers are getting for the products

⁹⁰ USP: Unique Selling Proposition.

and this brings transparency to the entire buying scenario while at the same time it puts pressure on the importers' margins.

'The whole world has got access now to what is available and from wherever it is; whether you want to have a look from China or Alibaba.com or whether you wanna have a look through Pakistan on the EPB's network. The information is so globally available; the whole business is transparent now. Our customers now know exactly within five or ten seconds what price we are buying at.' (BUK1)

Importers' customer-base has got access to their supply-chain and vice versa, and this creates a challenge for the importers in terms of justifying their existence. Importers sometimes find the buyers demanding lower prices because they have discovered that some mill is quoting them. The importers claim that they know the market and the mills' cost structures well enough to understand that if the price is lower than what they suggested then it must be because the product has been compromised in some way. Then they need to convince the buyer by explaining the cost differences.

Importers are further challenged by the retailers buying directly from the mills. With increased price pressures due to competition, retailers find it cost-effective to eliminate the middlemen and buy directly from the mills. This is, however, a complex issue where the services performed by the importers, such as designing, warehousing, logistics, financing, QC, packaging, distribution etc, become the responsibility of either the mills or the retailers. Some large retailers have been successful in setting up regional buying houses in order to procure supplies from leather- and textile-rich countries like South Asia and South East Asia regions.

These buying houses pose the biggest threat to importers because they feel that while buying directly from the mill is still a complicated issue for most of the retailers who are not large enough to support the infrastructure, the buying houses of the larger retailers such as *Ikea* and *Asda* are very proactive and...

'....atrocious. Some of the international buying offices for these large retail groups are atrocious. They are specialist in everything!!' (BUK2)

Sensing the change in market mechanisms, successful importers have proactively modified the services offered to retailers. They find that in order to remain on top of their game, they need to strengthen the services that the retailers cannot get by going directly to the factories because retailers do not have the infrastructure in terms of quality of service, quality of price, or quality of product, or a mix of all of those elements.

The importers say that they need to emphasize these services to their customers not only to ensure their dependability on importers but also because of the advantage they offer retailers with their in-depth knowledge of supply markets, acquired over years of dealing with the exporters, and the extra services they offer the retailers. They offer retailers packages where retailers can choose the services they want and eliminate those that they can handle themselves. For example, BUK1's and TUK2's website offers retailers various packages at different prices, giving retailers the option of mixing and matching the services according to their needs.

To remain cost-effective, the importers are reducing their costs by, for example, eliminating the logistics side of supply. LUK1 say:

'...it's a very expensive hobby moving goods around the world.'

So LUK1 and LUK2 have established a system where they are training their suppliers to ship ready-to-hang products directly to the retailers. In this way, the final process of leather-apparel manufacturing, molding and pressing, also becomes the responsibility of the suppliers. In textile industry importers report that, depending on the requirement of their customers, they either have the shipments sent directly to the retailers or bring the containers to their warehouses for distribution.

4.3.4 *Competition Faced by Exporters*

Large textile manufacturing firms like BP1, TP1 and BP2 that once enjoyed the status of being the largest exporters of bed-linen from Pakistan are now constantly threatened by competition and the resultant price wars not only locally but globally as well.

Till 2004 Pakistan was the largest exporter of textiles (Dun & Bradstreet, 2004) and the mills had increased their production capacity in anticipation of increase in exports after the quota was removed. Locally, new players also entered the field in wake of large profits earned by existing manufacturers and the promise of increase in exports once quota restriction was removed. Total exports out of Pakistan did increase after 2004 but over-supply due to increase in local production capacity and the fact that other countries like China and India also came into direct competition due to quota removal depressed profits for firms. Bangladesh developed a textile industry and offered low thread-count plain-dyed and printed bed-linen at prices that were 10% less than the rest of the countries because of tax

exemption as an LDC⁹¹. Pakistani mills now find it hard to compete in the lower-end segment because of the price difference with Bangladesh.

'...in all the embroidery and embellishment the Chinese cottage industry is very cheap. In the commodity side Bangladesh because that 10%...you see the margin today, we are making... running on 2% profits...1%... No, 10% duty difference, you just can't compete... So whatever Bangladesh can sell they buy, then, Bangladesh capacity is full then they come here. So as long as Bangladesh keeps expanding one day we'll have no... nothing left, because that 10% is too much.' (BP1)

China is the other major competitor for Pakistan and it has replaced Pakistan as the largest exporter of textiles and has also become a formidable supplier for cheap leather jackets. Pakistani leather garment manufacturers find it very difficult to compete with China on the basis of price and some producers, for instance LP3, are considering repositioning their products towards higher-end to compete with low-volume high-priced jackets from Portugal and Italy.

Price pressures that are the result of changing market trends have taken buyers to countries where they find cost advantages and China is competitive in the higher thread-counts of above T200 and in jackets made of pig nappa. In textiles, Pakistan has an advantage over thread-counts up to T200 but it loses that advantage for products with higher thread-counts due to the fact that...

'Pakistani cotton is not suitable for higher thread-counts.' (BP3)

⁹¹ LDC: Least Developed Country.

Therefore, textile manufacturers must buy their cotton from the international market in order to produce higher counts and this increases their costs further. Additionally, China is the preferred choice for buyers of embroidered and embellished bed-linen. China also has an advantage over quilt fillings which are too expensive to produce in Pakistan because Pakistan does not have the material for it although it produces quilt covers in cotton and poly-cotton.

The three bed-linen importers have categorised their products according to countries. For example, they buy plain-dyed, printed, and some embellished bed-linen from Pakistan, lower thread-count plain-dyed and printed bed-linen from Bangladesh, and embroidered bed-linen from China. India competes directly with Pakistan and both China and India have the added advantage of a large home markets which Pakistan lacks. Additionally, India's textile industry is growing rapidly and is much ahead of Pakistan in textile garments but not in bed-linen and towels.

'In commodity because of the 10% advantage... there is no margin... so in the lower-end Bangladesh kills you and in the higher-end China kills you or India kills you.' (BP1)

In the towel industry, Turkey and India are considered to be the main global competitors for Pakistan's towel exporting industry. Turkish towels have a history that dates back to the 18th century. Since towels are part of the home textile industry they have faced the same fate in UK markets as bed-linen, with supermarkets taking over sales from departmental and speciality stores. Plain-dyed and bleached white towels are sold as commodities but where towels are part of the fashion industry, for example luxury towels, embroidered or embellished

towels, terry bath-robos etc, their shelf life is reduced similar to bed-linen and their designs go quickly in and out of fashion. TP3 is of the opinion that

'...high-end luxury towel market is not lucrative for Pakistan because it is low-volume and has a limited demand. We are geared towards large volumes...'

Although Pakistan could produce these towels at lower cost than Turkey they would not fetch a good price because of the perception of towels coming out of Pakistan as being competitive rather than luxury.

'So they don't want us to make that quality and even if we make it, they don't want to give us the price. They don't give you the price because a trend has been created. Pakistan is only for the cheap product ... Pakistan means cheap.' (TP3)

In leather garment industry Pakistan again competes with India and China where China offers the most cost-advantages with leather jackets costing as low as £12. Pakistan has an advantage over cow, goat, sheep, and buffalo skins and offers greater width of material but its costs of production are high as compared to China and volume buyers, for example the American market, prefer to source from China who have the capacity to cater to large orders.

Additionally, with logistics becoming more the responsibility of the exporter, China offers a one-stop solution because its ancillary industries for trimmings, buttons, zippers, polythene bags, hangers etc. produce a better quality of product than do Pakistan's industries. Pakistan imports its zippers and trimmings for jackets from Hong Kong and this adds to its cost against the competitors.

Importers have faced the problem of trying to get packing material in order to ship directly to the retailers. LUK1 offers the following advice:

'Coat hangers - you try and buy coat hangers in Pakistan. It's crazy, it's crazy with the construction of the product, the quality of the product; polythene bags, and all those things that make that added-value is what Pakistan should be focusing and concentrating on.'

4.4 CONCLUSION TO CHAPTER FOUR

This section discussed changes in trade scenario that interviewees talked about and that have an effect on their relationships, namely the price-wars that are the result of inclusion of departmental stores, supermarkets, and internet sales in retail, the competition importers face from buying-houses of large retailers, and the local and global competition faced by the exporters. The predominant outcome of these factors is the resultant decrease in prices of bed-linen, towels, and leather-apparel and a depression in profit-margins of both importers and exporters. The analysis of this research reveals that price pressures play a significant role in shaping relationships between these importers and exporters. In fact, price is the overriding factor for importing from Pakistan. This phenomenon of global price-wars is being termed dynamic competitive prices, or DCPs, in this research and its effect on exchange relationships is studied in subsequent chapters.

Chapter five discusses the interaction process and builds a model of interaction between the Pakistan-UK dyads under the effects of DCPs.

5.0 ANALYSIS OF DATA – INTERACTION MODEL

5.1 INTRODUCTION – CHAPTER FIVE

This chapter carries the analysis of chapter four forward and builds an interaction model of relationships between UK-importers and Pakistani-exporters. The chapter elaborates on the relationships between bed-linen, towel, and leather garment importers and exporters and looks into the similarities and differences in perceptions of exchange partners.

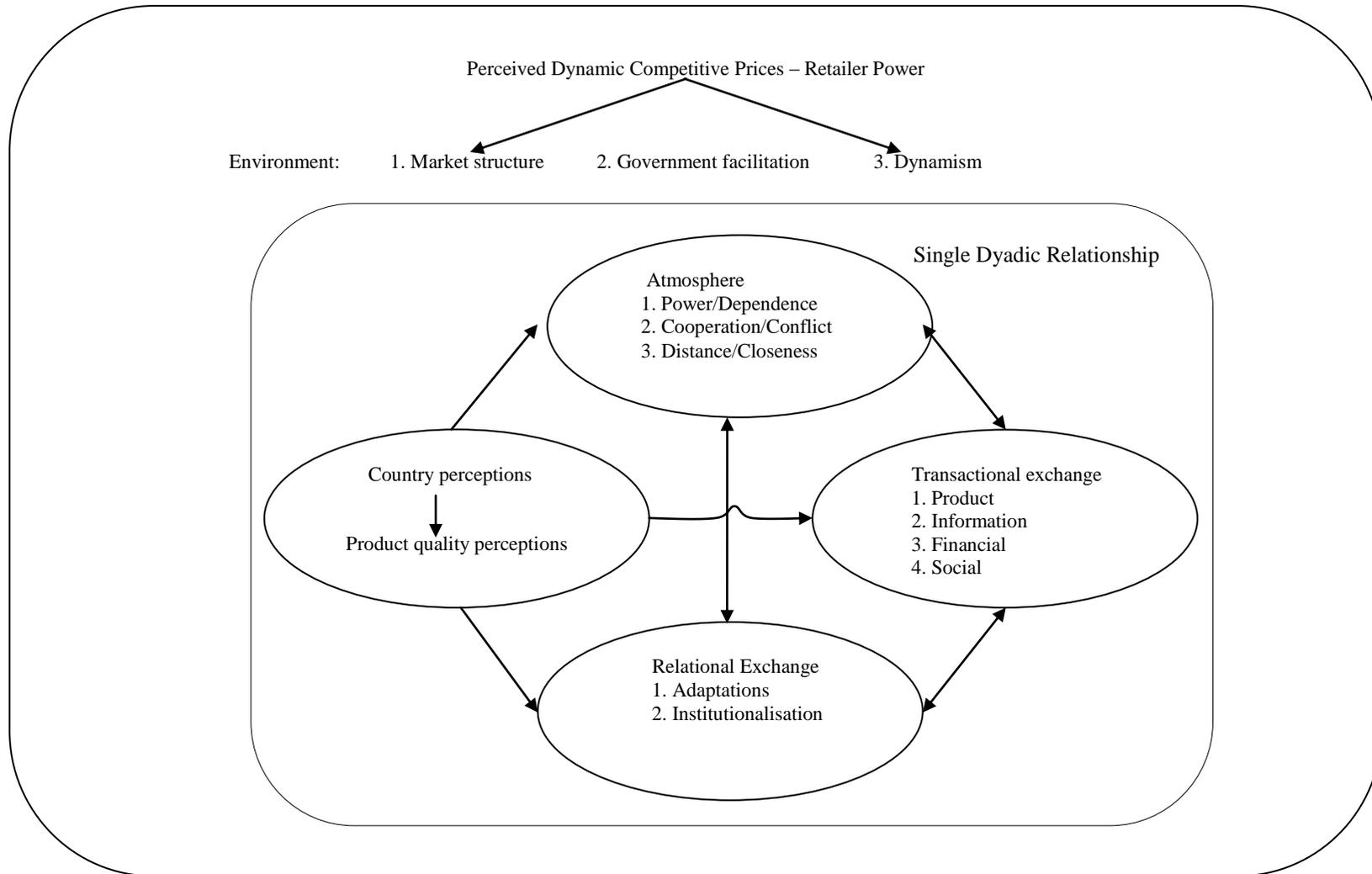
5.2 INTERACTION PROCESS

The interaction process in UK-Pakistan exchange relationships is heavily governed by country perceptions and the atmosphere surrounding the relationships. That is to say that transaction episodes are influenced by the atmosphere, which is itself influenced by country perceptions so that a vicious circle is formed between country perceptions, transactional exchanges, and atmosphere.

Factors regarding country perceptions that the respondents mentioned as important and that affected the relationships were perceptions about the quality of product coming out of Pakistan. These quality perceptions are seen to play a mediating role between episodic⁹² exchanges and relational exchanges by

⁹² Individual exchanges between firms are considered ‘episodes’ in the IMP model. Four types of exchanges are identified: product exchange; information exchange; monetary exchange; and social exchange (Håkansson, 1982). In long-term relationships, these exchanges become routinised and are handled through the development of ‘relational exchanges’.

FIGURE 5-1: INTERACTION MODEL OF RELATIONSHIPS BETWEEN UK IMPORTERS AND PAKISTANI EXPORTERS



influencing adaptations and institutionalisation. Country perceptions lead to product-quality perceptions, which have an effect on the overall quality of relationship between exchange partners. All these interactions take place within the macro-environment which, in the context of this research, is governed by the over-ruling force of transient price pressures exerted by retailers on importers and, as a consequence, on exporters.

Figure 5-1 depicts the phenomenon and the remaining chapter is dedicated to its explanation and the forces that govern relationships between UK-Pakistan trade. Price pressures have evolved because of increase in competition for importers and exporters due to market structure changes as explained earlier. Respondents speculate that such price pressures are dynamic in nature and not liable to last, as is the case with most price wars, and, therefore, they have been assigned the name Perceived Dynamic Competitive Prices (PDCPs from here on) for the purpose of this research. Every aspect of the interaction process is being affected by the current PDCPs that are shaping and challenging importer-exporter dyadic relationships.

5.2.1 Macro-Environment

Beginning with the larger environment of exchange, manufacturing-firms occupied the last link in the production process and sold their products to importers who further sold them to retailers. Other aspects of the environment, namely market structure, internationalisation, market dynamism, and social system surrounding the relationships are discussed in this section.

5.2.1.1 MARKET STRUCTURE

Manufacturer market is built up of two kinds of firms: the organised sector with firms that are ISO-compliant⁹³ and registered with the government, and the unorganised or unstructured firms that constitute the cottage industry and are mostly non-compliant and tax-exempted. Large manufacturers like BP1, BP2, BP3, and TP1 are registered and compliant, with their own effluent water-treatment plants. TP2 and TP3 belong to the unstructured sector of textile industry. Leather tanneries are situated in a specific industrial area which has an effluent water-treatment plant installed by GoP. There are around ten large manufacturing units in the textile sector but many smaller factories in the unorganised sector.

On importers' side, there are the very large importers like TUK1 that supply all over Europe and smaller ones that cater only to the UK market. All importers that were contacted have had considerable experience in international trade and have become well versed in trading with Pakistan. Their supplier-markets are global and comprise of Pakistan, India, China, and Bangladesh who mostly compete with each other on a like-for-like basis, and Portugal, Turkey, Italy, and Egypt in the higher-end for home-textiles and leather-apparel. Thus, a large number of alternatives are available to the importers who have categorised the type of product they buy from each country, and each firm within the country.

⁹³ ISO: The International Organization for Standardization is an international standard setting institution representing various international standard institutions. It defines worldwide proprietary industrial and commercial standards

5.2.1.2 DYNAMISM

Competition is fierce among manufacturing-exporters because of the large number of local and global producers. Government support in China, and Bangladesh's tax-exemption as an LDC make these countries' products cheaper whereas India is considered more expensive and importers like BUK2 and TUK1 do not buy from India as they consider Indian management to be:

'...too difficult to work with. Also, because we have such flexible and easy terms with BP2... We also find the attitude of Pakistani business-people easier to work with. I think they have more in common with the way we trade whereas I think India is a little bit different...' (BUK2)

'I think, to be honest with you, attitude. The attitude of the mill owners (in India) is different because they have such a vast home market as well and really emerging home market... I think flexible; they are not flexible at all.' (TUK1)

As mentioned before, the global competition has brought down prices to such an extent that manufacturers quote prices at cost in order to get orders:

'One, supermarkets came and price-wars started; two, quota went and (three) Pakistan got anti-dumping duty. So we got hit three times. Then they put a very high duty from there. They'd given a 0% duty and then they went to 25%. So Pakistan lost its market share totally in the sense that we had to drop our prices by nearly 30% to retain market share. And that was really very tough. A lot of mills had to lose money.' (BP2)

Additionally, locally the cost structures for the unorganised sector are lower because of tax-exemption and non-compliance and these give tough competition to larger firms that offer better quality but at a higher price. According to BP1:

'...even the big industry became a cottage industry. They became undocumented. And they were competing here. So both sides, the large-scale listed companies are in trouble in Pakistan because of the documentation; we are fully documented, and we are fully compliant. Now what do we do?'

PDCPs have become a challenge to all exporters who find they do not have the capacity to reduce prices further to match those offered by China, which is seen as the biggest threat to survival. However, as is the case with all price wars, exporters expect that China will eventually face rising production costs and prices will go up enough to be compatible. Proactive exporters who keep an eye on competitor markets are hopeful that sales would increase when buyers start returning to Pakistan:

'We are concentrating on our local retail outlets and waiting for China prices to rise; but it is the interim period that is very painful...' (BP2)

'We have survived this far and Insha Allah⁹⁴ things will improve once law of economics settles in...' (BP3)

China is undergoing a rise in its cost structures with labour becoming more educated and skilled and demanding higher wages, especially in the wake of coming-of-age of 'one-child' population who are better-educated and not willing

⁹⁴ Insha Allah: God willing

to work under similar labour conditions faced by their parents (Wong, 2010). Added to that is the pressure on China to re-value its currency and an energy crisis that has made manufacturing of heavy engineering products questionable. While China experiences its growth and development, Pakistani exporters wait and observe in anticipation of better future exports. This is why the present price pressures are considered in this research to be transitory, hence the name PDCPs.

5.2.1.3 SOCIAL SYSTEM

The most important attribute of social system that has an effect on the relationships under study is country perceptions. Its influence is deep and affects the atmosphere surrounding the exchange, as well as the relational exchanges between the exchange-partners. It also sets an image of product quality coming out of Pakistan, which puts it within certain price points. For this reason, it is explained separately in the following section.

5.2.1.3.1 COUNTRY PERCEPTIONS AND QUALITY IMAGE

In their accounts of the eighties BUK1 relate that:

‘People had a very fixed idea of where Pakistan was in the social structure and what was there. People didn’t want the name “Made in Pakistan” on. Now it’s very normal and we proudly put it on our goods but historically then it wasn’t. It was more of a shielded environment that somebody thought that we were getting less value for money.’

One reason for this improvement of image could be that the manufacturing industry moved out of UK and the British had to buy goods made in other countries. Another obvious explanation would be that the product quality

improved over the years. Gradually, as consumers have become accustomed to foreign products in the market, the impact of COO⁹⁵ has been minimised and, according to LUK2 and TUK3, people first look at the price of the product and then the feel of the product then make a purchase decision. According to them:

'...country of origin is way down the line' (LUK2)

Importers, who know the retail market in the UK, say that Pakistani products go to mainstream high street shops with all the big labels in the country. BP1 assert that their quality is of international high-end standard:

'...in Heimtex which is the largest textile fair. ... probably our stall is the largest compared to any other European companies. And we are also established not in the Asian ...but in the European block... We have always been into the European block. So that is BP1's strength when it comes to the product and the quality.'

Thus, according to BP1, their quality is good enough for them to be included in the European block of *Heimtextil*. One reason why their stall is in the European block could be because they produced for a British company that previously manufactured in the UK and later shifted its production to BP1 but continued to sell its products under its original brand name. BUK1, who knew about it, said of the retailers;

'...they got it manufactured in Pakistan and sold it here under their brand name. People never knew where it came from...which was very cheeky of them...'

⁹⁵ COO: Country of Origin

This shows that BP1 quality was at par with the brand image of a well-respected specialist store dealing specifically in home-textiles. BUK1 also buys from BP1 but still perceives the quality to be of a good standard, mainstream, high-street product. According to BUK1:

'...things coming from Pakistan need to fit on a certain price point ...people accept Pakistani quality from the middle-of-the-road. I am generalising. I think there are products that are outside above and below that quality but generally when people are looking at produced and printed in Pakistan it has got to fit in a price point. So ya, people are very comfortable with Pakistan at certain price levels... to be honest I find it a little bit unfair...'

BUK1 realises the quality is superior and feels that there is some stereotyping of the product. Throughout the analysis one distinct feature that stands out is that the entire trade revolves around price and everything is relative to that.

BP2 also think that their quality is under-rated. Their buyer, BUK2, rates them high on quality but still places them on mainstream high-street standard:

'For Pakistan he must be in the top five producers, with the best quality, or certainly one of the best qualities in Pakistan. In the UK market I would say BP2 were more than acceptable quality-wise. It would go to the mainstream middle-market, large-volume retailers. I think the product from Pakistan is very much geared to that area of business. There are some small exceptions where it goes into the much higher

quality market but 80, 85% of the product produced in Pakistan is mainstream, volume-based retailers.’ (BUK2)

In other words, the best quality from Pakistan would still go to the mainstream with a few exceptions. The reason for this, as it appears from the context of the setting, would be that Pakistan is a preferred choice because it offers the price points that retailers want, which is for the bulk mainstream stores. Pakistan is capable of producing better quality, according to BUK2, but that would come at a price higher than what the retailers are willing to buy for from Pakistan and, therefore, it continues to supply the standard quality which sells. In this way, the perception of Pakistan as mainstream supplier remains:

‘Portugal tends to be the more higher-end of the business in towelling and bed-linen... offers very, very small minimums for the retailers. Pakistan; cheaper price, good quality but higher minimums, more volume products.’ (TUK1)

In other words, bringing Pakistan into that category would reduce margins for the retailers which they get by maintaining exclusivity for Portugal textiles. BP3 are also in the high-quality range and they were rated by their exchange partners, BUK3 as:

‘...they are very much mid-market. I think there is still a lot of production in Turkey and Egypt that is higher-end. But I would say BP3 are absolutely fantastic at the middle-end business... Pakistan and India probably dominate the world market in that middle quality.’

Towel industry suffers the same fate as bed-linen industry. TP1 has a new plant capable of producing high-quality towels of the standard that comes from Portugal and Turkey because it is state-of-the-art plant. TUK1's opinion of TP1 is:

'In quality I think there is a difference. I think you also have to differentiate between Pakistan quality and TP1 quality. A lot of Pakistani exports are not of the standard that TP1 is. So I think these are two different areas. I think TP1 is global quality that again would be very acceptable.'

Thus, TUK1 appreciates the quality of towels produced by TP1 but rates the overall quality from Pakistan as standard mid-stream. TUK2 has similar opinions about the products from Pakistan:

'It's very defined because basically apart from the quality of fabric the printing is very similar, so UK retailers know that if it is made in Pakistan then it should be at a certain price level.'

TUK3 feel that there has been an improvement in perception of quality coming from Pakistan:

'I think the perception has improved... previously any Pakistani products were thought of as being real bargain, basement level and I think that's definitely evolved into the middle market over the past 5 or 6 years...'

Thus in textiles, a strong country perception as standard, mainstream and volume supplier continues to keep Pakistan in that category and though manufacturers

produce higher quality, they are not considered at par with suppliers of high-end products. Since they are not offered the prices for high-end products, they continue to supply standard, mainstream quality where they come in direct competition with Bangladesh and China who offer lower prices as mentioned earlier.

Leather garments are different from textile because their manufacturing base is not considered as being up to the standard. For example LUK1 say:

'...Middle-to-low. They've got some nice leather but they don't have the manufacturing basis to make the levels to supply to higher-end. They export leather to the far East where they can probably do it but there are not enough manufacturing capabilities to make for Gucci or whatever, the top end, Burberry's etc.'

The major problem with the industry is that it is labour-intensive and it does not have the ancillary industry to support its production with trimmings. All three importers complain about that. But LUK2 also say:

'Pakistan have a competitive edge over a particular type of leather. They have the finishing techniques that you couldn't find in any country'.

The inference out of this is that Pakistan's tannery sector is better than its leather-apparel production. LUK1 and LUK2 prefer to purchase from firms that have their own leather tanneries but all three have a hand in leather finishing and are involved in the production process. Unlike the textile industry, Pakistani leather-apparel manufacturers admit there are issues with the quality of the product:

'There are complaints and they have their agents, inspectors also in Pakistan. They are inspecting each and every garment before it is shipped. So there is an importer there in England and there is an inspection company here also, making inspections. So I think generally there are always complaints.'

Strict control procedures need to be implemented in order to ensure the right quality goes to the retailers. This involves hiring outside agencies for quality checks before shipment is made. LP3 do not get inspection done from outside agencies and insist that their own QC procedures are sufficient. This could be one reason why LUK3 shy away from buying larger volumes from them. Importers get shipments made directly to the retailers in order to avoid cost of logistics and it is important to get the inspection done in Pakistan. LUK3 say:

'But they still do a good middle-low product for Europe.'

LUK2 had a good opinion of their exchange partners and said:

'I think for a Pakistani factory we are more than satisfied. I think they excel. With the problems there are and with the problems that are inherent I think they excel, I think they are excellent.'

To sum up, the strong relationship between quality and country perceptions is evident from the statements where the good product of the partner firm is appreciated and set apart from the general Pakistani mills through repeated use of statements like *'for a Pakistani factory...'*, *'for Pakistan...'*, *'...difference in Pakistan quality and difference in TPI quality...'*, showing strong stereotyping towards Pakistani products and fixed price points as standard big-volume product.

Firms like BP1, BP2, TP1, and LP1 are striving to place themselves in the higher-end of the product in order to utilise their superior manufacturing capabilities and avoid direct competition with China and India but stereotyping of Pakistani product as middle-to-low mainstream market is deterring their entry into their desired niches. Importers do not accept their products in the top-end market niche and, therefore, do not offer the price that justifies manufacturing for the target market. They would like to compete at the higher-end with Portugal, Turkey, and Italy through low-volume, high-margin niche marketing, with the added advantage of offering lower prices due to their cost structures:

'...All my niches, they are my strength, I compete with Portugal, I compete with Turkey... So I show them all that. "You are buying this from Turkey, buy from me, I will be cheaper. You are buying from Portugal, you buy from me, and it will be cheaper"' (BP2)

'Now there are two ways to do it, I feel that we have gone to a stage from where we can't go back we have to move out and change, and then build a niche and build a higher image and change ourselves totally or sell out and get out and then that is the last option.' (BP1)

'Our aim is that quality is crucial. We talk about the image of Pakistan – it is very important for us that we have quality merchandize available. For that quality manufacturers and producers like us, we should do higher end. This, I would say, is part of our vision... For companies like us we are doing better leather and either we go up to do what Versace and Gucci and so on and so forth are doing – like Prada make – that is catering to the top end...' (LP1)

'We have set up a new plant... our plant is the latest and most up-to-date in the world. We intend to produce for higher-end because even Portugal doesn't have machines like ours.' (TP1)

However, as mentioned before, retailers are not willing to accept Pakistani product in the higher-end and continue to perceive products coming out of Pakistan as middle-end mainstream because it serves their purpose of high-volume high-minimums sales. It is assumed that the conflict of interest and persistent quality perception would cause disillusionment and dissatisfaction with exchange-partner, thereby affecting the quality of relationship negatively. Repositioning in the higher-end and acceptance by customers takes time and the interim period will be marked with dissatisfaction and mistrust on the exchange-partner's ability and willingness to market the product efficiently. All of the four manufacturers, BP1, BP2, TP1, and LP1 have started experimenting with the high-end niche market on a national level by opening up national chains of stores that carry their products and cater to the high-end of the home market but their attempts at establishing the same image abroad are met with resistance from the importers who continue to perceive the quality as mainstream, middle-of-the-road.

5.2.1.3.2 COUNTRY PERCEPTIONS AND ETHICS

Regarding ethics, importers and exporters recounted bitter experiences in trade with exchange partners other than the dyadic relationships.

5.2.1.3.2.1 IMPORTER PERCEPTIONS OF ETHICS

The dominant issues of importers' sour experiences consisted of receiving poor quality other than that which was initially decided upon, late delivery resulting in

non-acceptance or non-payments by retailers, and at the extreme, sellers approaching the retailers directly promising to supply at a cheaper rate and, in the process, increasing their profits by cutting out the middleman. BUK1 expressed that

‘Ethical trading was still an issue in the eighties which has become more of an issue as we progressed down the time’

On the other hand, in his discussion on country perceptions BP2 stressed that the need to achieve cheaper products takes importers to those exporters who are willing to supply at low rates. Exporters claim that they know through their experience that if they can offer a product at a negotiated price then, considering their economies of scale, it is as low as is possible given the cost structure in Pakistan and the tough global competition. If a manufacturer can quote a lower price, it has to be at a quality compromise.

‘... if they don’t buy from people like us, they are going to get their fingers burnt, we are trying to go so cheap and then they are going there, so they have to pay the price, it is the price you have to pay to cut corners.’ (BP1)

According to exporters, importers are more concerned about price and continue to seek out cheaper sources, which ultimately result in lower quality than that which the importers initially sought and this leads to bad experiences of the importers. These bitter experiences induce stereotyping where manufacturers and exporters are looked upon with suspicion regarding credibility and trust. Conversely, manufacturing-exporters claim that if the importers were experienced and well-educated about the textile market they would understand that a particular quality

comes at a particular price and will therefore not force the manufacturer into cutting corners in order to meet importer demands.

The explanation offered by BP2 for importers receiving lower quality than agreed upon (from suppliers other than him) is that:

'Everyone increased their capacity in anticipation that sales would increase after quota was removed. And new players also came in thinking they would sell once the quota was gone. But then China also came and India, and there were more people to share the sales, which did not increase so much because the markets were the same. So people are sitting with heavy investments and running at break-even or even marginal-costing. What can they do? They accept low price points because they have no choice and then they find it difficult to produce and have to cut corners, compromise on quality...' (BP2)

Exporters assert that these are usually new investors, in the unorganised sector of the industry, who joined the industry when they foresaw the opportunity that removal of quota would bring, and are, therefore, inexperienced about the demands of the industry.

'We tell the customer, when he says that Pakistani manufacturer is bad, "Why did you buy from him... You should have gone to this and this. There are 400 mills: you left the 400 and went to four people. Now they have given you bad product and you say Pakistan is bad. That means that you have no experience". Later we find out that he most probably talked to the 400 but when he found the 4 cheapest ones he did business

with them. Then he blames the country. So now we come off as the bad guys. ' (BP3)

They regret that such an experience results in tarnishing of the textile and leather-apparel industries which are very well-established industries of Pakistan and play major roles in the GDP of the country. According to TUK3:

'You know you're not going to get what they are saying they will deliver because everybody is going to be doing it. It's the cheapest because they have taken something out of it, effectively playing with the product.'

In all these discussions on ethics the common theme is the stress on meeting retailer price points. Work ethics in Pakistan are considered very different from the UK. Importers who rate their exchange partners high also were careful about the way they worded their answers. BUK3 define BP3 as

'I think business ethics⁹⁶ in Pakistan do vary quite a lot. Ethics for BP3, I think their ethics are very, in sense, I don't think it's the right choice of word, but I think their ethics are very Westernised in the way their attitude to business is conducted.'

In other words, BUK3 find BP3 compatible because of similarity in ethical values. Other responses bring out the issue of work ethics in Pakistan. Importers feel there is a big difference between work ethics of the two countries and retailers in the UK are not equipped to understand or deal with these differences. They feel that

⁹⁶ Business ethics (as synonymous to work ethics) are considered to be the set of moral values that guide conduct in organisations.

their experience with Pakistani mills has taught them the differences and retailers need them as mediators to get the most out of the supply-chain.

Institutionalisation of norms: Exchange partners feel certain that their counterparts will not cheat them intentionally because of the positive history they share with them, as evidenced from their view of their exchange-partners' ethical practices. Trust has built up between partners over the years of relationship and they feel incredibly committed to each other. This structure is necessary for continuity because of country perceptions that warn importers of differences in attitudes to work ethics. The relational governance structures remove the risk of doing business with Pakistani manufacturing-exporters:

'I think people are and have been very weary of working in Pakistan. With our clients we have to declare who the manufacturer is and because we've worked with BP2 for so long and our clients have received good quality merchandise that they can retail, that risk and that fear is taken away because they know our manufacturer is BP2. I would say 99% of our clients know and wouldn't feel any risk working with us knowing that we are working with BP2.' (BUK2)

'And it's having that interaction... and having that understanding that we've both got to try and protect ourselves... We've come up with structures and tills of how we've got to do that over the years' (BUK1)

'If there is trust and a potential then you can even have a moral contract with such a party... not necessarily a written one.' (LP3)

Adaptations: Respondents mention adaptations of manufacturing processes but they are not relationship-specific since they are usable for other buyers once installed. Commitment is, therefore, not based on monetary investments in the other's business, but the learning and know-how thus acquired play a strong bonding role and result in reciprocity and a desire for continuity of relationship.

For instance, importers may advise manufacturers on how to achieve a certain kind of feel on jacquard cloth by altering the manufacturing-process, and once the manufacturers master this technique, they may use it for other customers as well. The importers have no objection to their use of the skill since they feel it is the manufacturer's investment but they do have an agreement whereby the manufacturers would not sell the same products to other customers in the importers' markets. However, relationship-specific adaptations are also made in relation to developing understandings of *cultural ethics*⁹⁷ with regards to time and product quality.

'So the marketing side of it is controlling the Pakistani mentality for timing, quality, and overseeing. A lot of the bigger companies in the British Isles need a third party. They need a confidante, somebody to do that work because the relationships of direct shipping into retail from Pakistan have not been sort of wholly accepted or successful. You have to understand the mentality. We understand how the Pakistanis work: we

⁹⁷ Importers relate business ethics to cultural norms and state that, as a general rule, Pakistani businessmen's understanding of time and slight variations in agreed upon quality vary from those of the British businessmen. Deadlines are meant to be broken and product can have a difference of 'unees-bees'. Importers term this mentality as 'cultural ethics'. *Unees-bees* literally means nineteen-twenty and signifies a difference that is nominal and acceptable according to Pakistani society and, therefore, not considered unethical.

have worked with them for about 18 years. We understand what the demands of the UK retail market are. If they were conversing with each other there would be huge problems.' (LUK1)

'Differences in mentality – specifications of acceptability in the realms of what is acceptable and what is of quality. How Pakistanis' normal working employee would look at what is acceptable. We need to guide all the time. You have to have quite a long relationship to get that point across to key workers; just simple methods of finishing, how to present the product.' (LUK2)

Therefore, one major perceived ethical difference is about the attitude of Pakistani exporters towards time and quality. Commenting on the hospitality they receive on their visits to Pakistan, LUK2 said:

'If they were as professional about their critical path as they are by their service and responsibility towards our safety and our well-being then it would be very good, it would be double-edged but... they look after us better than they do the general business.'

Perceptions of ethics have a strong influence on relational exchanges in that adaptations are made in critical paths set out for manufacturing processes by both the importers and the exporters.

'If we have ninety days to complete a job, we tell people in production that we have seventy. The other thing we do is that we keep an inventory of grey material for people who we have a mutual trust with. So if we

have an urgent order, all we need to do is finish the product and not spend time weaving. This way 90% of our orders are on time.’ (TP2)

‘If the delivery date is 1st of August you will tell the Pakistani delivery date is 1st of July then you might get close to yours.’ (LUK1)

‘We try and build in at least a couple of weeks to try and get over what they may have... and we keep it to ourselves.’ (TUK1)

Need for quality consistency also requires adaptations in QC procedures as mentioned before. Adaptations made by the importers are stricter QC through external inspecting agencies and taking over of QC procedures. In textile industry, the importers have a floor each in manufacturer’s factory dedicated to them for the purpose of QC. The employees work for the exporter but report to the importer on matters of QC.

5.2.1.3.2.2 EXPORTER PERCEPTIONS OF ETHICS

Pakistani exporters are also disillusioned by UK importers and talk about an important issue of importer opportunism that distinctly challenges relationships that have been built carefully over time. The second round of interviews in 2009 revealed that opinions of exporters about the UK importers had been altered significantly. For example, in order to get lower price points, the importers were claimed to have taken compliance-certification audit-teams of retailers to their exchange partners’ factories and, after they got the certificate, they placed a large amount of order at a non-compliant firm which had not been certified and approved for production. BP1 said:

'...they show them one or two compliant factories and then they ship from somewhere else... There are no secrets and if anybody wants to find out, one can totally find out.'

BP2 also claims that the retailers look the other way even when they are informed:

'I caught them so many times red-handed. And I explained it to the buyers, I said look they are buying from this factory here, they are running it here, they don't have an effluent-treatment plant...They just close up... they say "well they tell us.....We have to believe them".'

Exporters claim that two factories that are ISO-compliant and certified were caught by *IKEA* audit team on issues of compliance.

*'Nobody is paying overtime, 90% of the textile industry is not paying overtime. N and A are selling to importers and even with *IKEA* they have been caught with compliance. A was lying totally when they were caught red-handed just one month ago. We knew they were lying, they were running 3 shifts and they were saying they were running 2, and they were just showing different books to the buying auditors ...'*

Exporters worry that constant price pressures on importers and exporters are forcing both to look for short-cuts to try and meet the price points of retailers. BP1 was very angry with the fact that his factory was audited but the order was given to someone else.

'But they buy 90% from non-compliant and 10% from us just for show that they do compliant. Next, and Marks & Spencer, That's just those two retailers which they'll show, the rest is all non-compliant.'

Thus, exporter-trust built through long-term relationships is being challenged by continuous price pressures from retailers who demand lower prices and there is a feeling of uncertainty among exporters regarding continuity of relationships. Not only is this yet another example of how the current DCPs are altering previous well-established relationships but also shows volatility of RQ in the face of environmental factors.

Another ethical issue that exporters mention but agree that has no effect on their relationships is the quoting of lower retailer price than what retailer suggested.

'Well, they tend to misquote prices they are offered from retailers and other manufacturers but I guess we all have a right to negotiate...' (TP3)

5.2.1.3.3 COUNTRY PERCEPTIONS AND CULTURAL DIFFERENCES

Though cultural differences were identified by the respondents, they were said to have no effect on business apart from the fact that it is important to know the differences and embrace them when interacting with the exchange partners.

'When I am with Jews I become a Jew myself. I am so flexible that when I am with a Hindu I become a Hindu. By Hindu I don't mean I start worshipping with them, I mean I adopt their culture. I don't impose my culture. If he doesn't eat meat then I don't ask for meat on the table... He knows that I can eat non-veg... I am giving him respect, I am giving

his family respect and so friendship comes in. Similarly, when I go to the Jews I wear their kippah. They don't eat without that... I sit with them and wait till they say their prayers and then we all eat... This is my friendship, this is my family relationship that in this way I end up meeting their families, their thing...' (TUK1)

Some cultural differences that were highlighted by UK importers concerned workplace environment. One fact that all mentioned, especially importers of leather garments, was the treatment of females. They noted that when the designer team, most of whom are females, went to the factory they were treated differently by the floor workers and manager.

'...they wouldn't take instructions from a girl... but now it's much better. It's not perfect, you know, as long as the girl dresses sensibly; put some decent clothes on and cover yourself. It's a different society. And we are very professional and we've worked with them a long time so we make the girls aware of what the situation is before they go there. They do have to be firm, but in a different environment. When they are on the shop-floor they pick up, they make notes and then when they are in a room face-to-face with the manager or the person of authority who needs to be corrected or put into a structure where he has to make a change or he has to advance then they can talk to him in the environment of managers, owners whatever but not on the shop-floor because it's a different way of work... as long as he is in front of his bosses, no problem.' (LUK1)

Both LUK1 and LUK3 had the same experiences. LUK2, who is herself a female, said that this had never happened to her or to any of her colleagues. She mentions that the Pakistanis are very hospitable and give her a warm reception. They socialise in the evenings and she does not feel awkward being there.

Pakistan is a male-dominated society and though a good part of the middle-class is educated the leather-apparel factories have a high number of semi-skilled labour who would come from uneducated backgrounds and who learn the skills not through schooling but through apprenticeship. It is interesting to see how these stark differences are overcome. Leather importers say that when they go to another country they expect differences and learn to cope with them. These differences have no impact on business. Importers and their account managers learn about the cultural differences in advance and prepare themselves to follow the code of conduct necessary to overcome any cultural shocks.

Country perceptions may also have been affected by the September 11 and July 7 incidents but all respondents said that there was no effect on business due to political or other events and there was a dip in sales for a year but it had a very short life. Exporters' perception is that:

'... they don't like it, they are not happy here because they don't feel culturally happy because of this Talibanization, radical Islam, they don't feel comfortable. They come here because they have to come and they have to buy, we are the cheapest in that part of the product. If they had the choice they would not come here.' (BP1)

'Business has no relationship with these events, no relationship in their demand requirement. It dipped for less than a year after 9/11 but demand is there' (TP3)

'...links broke down when people stopped coming to Pakistan due to security reasons. To get themselves to a safe side people started making their bases in India so the good relationship we had with Europeans when they were travelling here easily got marred and they felt that we might face some problems if we trade with Pakistan, and India took advantage of this as they were ready for it.' (LP3)

Whereas importers say:

'People were obviously very aware of politically what might happen and I think some companies did make provision to move from Pakistan to India or China but generally I don't think we lost any business from the political situation...' (BUK2)

'This sort of terrorist threat as it is perceived, has had an effect in the way that nobody has been out there now for two three years from our side.' (TUK2)

'We are very much dictated to by our clients and as far as I am aware nobody said "look we don't wanna buy that if it is made in Pakistan" or received any negative feedback ...' (BUK3)

'We have not noticed any real change in what goes on. There was a time about a year or so ago when there was some violence in Pakistan, some suicide bombings etc. It had escalated to a state where we were seeing a

lot of it on tele here. The affected areas were where some of our mills are, Lahore. One of our suppliers, a guy we deal with on a daily basis, actually witnessed a suicide bombing and it was a really unpleasant time... He was really affected by it and we were really quite concerned for his safety.' (TUK3)

'Apart from one retailer who said we will not buy from Pakistan, we have had no issue...' (LUK1)

'We were advised by the Home Office not to travel to Pakistan but it did not stop us because we know our friends too well and how propaganda on tele distorts the ground reality of the real situation...' (BUK1)

In summary, cultural and political factors do not predominantly affect importer-exporter business relationships which, in this context, are based on product and price, factors that guide the entire industry. While cultural difference is not the decisive factor for importers in selecting their supplier markets, it is seen as a deterrent for direct trade between manufacturers and retailers. This provides an advantage to importers whose extensive knowledge of cultural diversities makes them indispensable to their retail-customers who require constant supplies from various countries and who are unwilling or ill-prepared to understand the technicalities involved in dealing with diverse perceptual differences that each country offers. Importers' long-standing experiences with various markets they import from are utilised by their retail-customers in order to obtain on-time quality deliveries.

In situations where large volumes are imported from, or exported to, a single country the size of business justifies direct contact and the extra effort needed to develop an understanding of cultural differences and the other party's mode of conducting business. For instance, Pakistani exporters who trade with USA have their own offices there to render services to large-volume accounts such as *Wal-Mart*. Similarly, retailers like *Marks & Spencer's* have their own buying houses in Bangladesh because of large volumes of purchases from Bangladesh.

The volume of trade between UK and Pakistan, though substantial, is not large enough for any single firm to justify direct trade between manufacturers and retailers. However, the cumulative volume when all retailers are added is large, which makes intermediaries a crucial link between manufacturers and retailers in this supply-chain, making this relationship indispensable in UK-Pakistan trade. Importers purchase from various manufacturers and distribute to different UK retailers. Global retail chain, *IKEA's*, operations are substantially large and justify direct buying from Pakistan. Therefore, it has an office in Pakistan that caters to procurement from large firms like BP1. This is but one exception, and importers continue to play the role of middlemen between UK retailers and Pakistani manufacturers and respondents expect this to continue in the foreseeable future.

5.2.1.3.4 COUNTRY PERCEPTIONS AND ATMOSPHERE

Effects of country perceptions on atmosphere around the relationships do not make themselves obvious but are more subtle in setting the tone for power/dependence, cooperation/conflict, and distance/closeness relationships.

Assuming **power** to be a relative term meaning the extent of ability one party has to overcome the resistance in another (Emerson, 1964) or the level of control one party has over another, it is observed that retailers have greater power in the supply-chain as compared to importers and exporters. This is evident from statements such as “*We are... dictated to by our clients...*” and

‘...we don’t get flexibility from the customer point of view. It’s very dictatorial now from their element of what they want: this is the price, this is the delivery, whether it is actually physically capable or not, that’s what they want. It’s very, very rare they’ll move.’(BUK1)

This retailer-importer power asymmetry has a trickle-down effect on the exporter in a relationship where importer is the spokesperson for the retailer. Additionally, exporters are **dependent** on the importers to reach UK markets. This is more evident in leather garment business where retailers require the expertise of importers to procure supplies because of the technicalities involved with the natural product and the labour-intensiveness of production process. In textiles, some retailers have found a way to reach manufacturers directly through their buying-houses (e.g. IKEA) but smaller retailers still need the assistance of an intermediary. Firms that sell to these buying houses face a dip in their sales because of the perceptions of security conditions in Pakistan and buyers’ reluctance to travel there.

‘IKEA is very compliant. Marks wants to but they can’t travel here because of the security situation. And that is also not helping Pakistan. Because of the security situation their compliance, people just cannot come.’ (TP1)

'...when you do brands then you need the customer to come and work with you. You want to change the fashion; in bed-sheets you want to embellish, you want to do embroideries. Then you are sitting here, the buyers are sitting... I remember we would work and we would go out for dinner, we would come back and then they would be ready again. So in three days you're working day and night and maybe making 20 modifications till it looks right. And then they sign the order and say "this is ok, go ahead". Now you can't do this because they don't come here. I can't go with the sample and they say change the colour red to a little darker red or pink to a little lighter pink, because by the time I do it, it's too late. I can't come back with the samples and go back again...'

(BP1)

Exporters also lose their negotiating power because of the presence of a large number of suppliers of similar products, as well as low switching costs (Cool & Henderson, 1998) and country perceptions further magnify the role of power/dependence in the UK-Pakistan dyad. Importers' perceptions that their exchange-partners do not possess the skills needed to cater to UK market, and their input in production process as knowledge experts, increases their power over exporters while their access to exporters' desired markets makes exporters more dependent on them.

Historical accounts of dyads show an atmosphere of **cooperation** where mutual strategic planning is undertaken and exporters willingly accept importer dominance in areas of designing, QC, and market knowledge while importers accept ready-to-retail shipments from them. However, referring back to issues on

ethics⁹⁸, recent price pressures and resultant subsequent acts of opportunism have resulted in **conflict** between dyads which negatively affects channel satisfaction and performance (Shoham, et al., 1997). Its impact on relationship quality can be seen to be negative as it reduces satisfaction with an exchange partner and adversely affects trust and commitment when it is felt to be excessive.

Distance/closeness has been discussed under ethics and culture and can be understood under the psychic distance concept. Psychic distance is “the perceived distance between two countries or regions resulting from cultural, business, and political differences” (Joliet & Hübner, 2008, p. 105). It is assumed that the greater the difference between factors such as economic development, language, political and legal system, trade practice, industry structure etc. the greater will be the distance between two countries. Language is not considered a problem because importers say that even the porters at the factories in Pakistan understand and speak English.

It was shown that significant differences exist between importers and exporters in perceptions of ethical business practices and culture. Perceptions about these differences increase the distance between exchange partners. However, it was seen that trade happened in spite of them and long-term relationships developed but these differences have their effect on the kind of relationship between the dyads. For example, leather-apparel importers feel their exchange partners lack skills in producing the quality of leather finish and garment that UK market requires and this gives them perceived power over the manufacturers where they increase their involvement in all stages of production. Yet, we see the example of LUK3, who

⁹⁸ Explanation given in section “5.2.1.3.2.2 Exporter Perception of Ethics”

continue to buy from LP3 with only the initial input on design and minimal of quality control. In textiles, importers feel that

'Their designs are very Americanised and totally wrong for the UK market' (BUK2)

Therefore, they never select any of the factory's designs and only get those designs produced that are made by their design-team or are given to them by retailers whereas BP1 and BP2 sell their own designs to retailers like *Asda* and *Carrefour*. Thus, in textiles as well importer input and involvement increases because of country perceptions, which has an effect on the power/dependence balance of atmosphere by increasing importer's control.

5.2.1.3.5 *ROLE OF GOVERNMENT*

Quota restrictions on textiles were lifted in January 2005 but Pakistani exporters have been burdened on and off with anti-dumping duties. Also, GoP facilitates exporters through various methods such as zero-rated sales tax for import of raw material, subsidized export credit, and a low 1.25% tax on export earnings. However, exporters identify other venues where they need government support:

'We don't want rebate, we don't want any devaluation from the government... Give us even playing field. Our government should have a research team who should study the countries around us. There are four countries that give us a tough time. These same countries provide textile to the world; India, Pakistan, China, Bangladesh. These control the major 70-80% of the textile of the world. The rest are Turkey, Vietnam, Egypt. Ok we are not there, but these four; our government can keep a

close eye on their governments to see what illegal or under-hand help are they providing to their countries' manufacturers so that our manufacturers do not have a handicap...' (TP1)

'We should get benefits in reducing our cost of production. The benefit should be such that it should not end in our pockets and we can pass it forward. Reduce our electricity charges; reduce our gas bill rates; provide us the water that we have to buy; gives something from the extra cost that we are paying of which the benefit comes neither to us nor to our importer and the cost is draining out. The government should help us on these cost factors then we will benefit and will do the same too. Reduce our interest rate like it is in India or in China. Match that for us. Give us, exporters, assurance that our money will not sink and if it does then we (government) will protect. So you have to give me the gate.'

Exporters want support from government on the lines provided to Indian and Chinese export industries. Exporters with ISO-compliant factories also want government to upgrade their labour laws and tighten the implementation of environmental laws in industries.

'...this way (currently) government is supporting the cottage industry at the expense of large factories with whom the future of the country lies...'

(BP1)

As mentioned earlier, non-compliant factories produce at lower costs and importers invariably source from these. This is surprising given that these importers are themselves ISO-compliant. As the data reveal, even retailers who

would otherwise do compliance-audits before sourcing would look the other way because they have the excuse of not being able to travel to Pakistan for security reasons and ignore complaints made by manufacturing-exporters. According to BP2:

'If government implemented its labour and environmental laws strictly then there would be no need for audit-teams to travel and reputation of Pakistan as an ethical sourcing-country would prevail...'

Not all importers need to be strictly compliant. According to TUK2, who supply to hotels and laundries:

'This issue has only recently been raised. We have received a thick questionnaire that we need to fill out. I will be asking TP2 and I hope he has the right answers...'

It is apparent that in an environment where strict laws are loosely implemented or insufficient, firms that would otherwise adhere to policies under a regulated government, are led astray and follow the path of the locals to exploit price advantages, reliving the proverbial “when in Rome do as the Romans do” life. The impact of retail price pressures is reinforced through the acts of all parties: retailers who purposely turn a blind eye to information about unethical sourcing; importers who act opportunistically by pretending to source from compliant firms; and exporters who lie to get the orders and then compromise on quality. The dynamism of competitive prices has had its effects on every aspect of the supply-chain.

Though it is not surprising to see prices as the dominating factor for supplier-selection in developing countries, the fact that ISO-compliant companies indulge in opportunistic behaviour because of the loosely implemented compliance laws in the foreign country is an interesting outcome of the research. Retailers who vow by ethical sourcing ignore the pleas of the compliant manufacturers by simply stating, “*We have to trust the importer...*” while importers continue to source cheaper products from non-compliant factories on the pretext of importing from compliant ones.

5.2.2 Importer-Exporter Relationship Quality

The interaction model of relationships between UK importers and Pakistani exporters translates into the effects of intense price competition on RQ between exchange partners. With increase in competition and availability of cheaper sources, retailers ask for reduction in prices to meet the price points that have now become available. Importers are under pressure to obtain those price points from exporters in order to keep retailers from direct-buying and justify their existence. The ultimate pressure in this section of supply-chain is on the exporter whose cost structures do not allow him to go beyond the floor prices. Exporters find themselves working on minimum profits and sometimes at marginal costs in order to honour their relationships and at the same time keep the crucial contact in the hope that they will ride the wave and things will improve.

Thus, dyads are observed to be under pressure from both sides: importers are under pressure from the retailers to obtain cheap sources of supplies: this pressure is ultimately passed on the manufacturing-exporter who are under pressure to

provide lower price quotes to their existing customers to meet importers' demands. At the same time, manufacturing-exporters strive to set their footing in the high-end market where customers are less price-sensitive because they wish to utilise their superior manufacturing facilities and avoid the intense price wars. As mentioned earlier,

UK retailers are not prepared to deal directly with Pakistani manufacturers in most cases, therefore, importers remain indispensable for both retailers and manufacturers in these dyadic markets. When the importers pass down the pressure of lower-price demands to the manufacturers, there is a feeling among manufacturing-exporters of uncertainty and dissatisfaction with the exchange partner's unsupportive behaviour, which results in reduction of the quality of relationship.

'We are important (to our buyers) as long as we are competitive. I mean if we are at the same price, they will buy from us. We can sell as much as we want as long we have the same price as everybody else, so we can sell, others can't sell.' (BP2)

However, importers' attitudes towards the relationships remain positive, as is evident from their responses of favouritism towards their exchange partners:

'LPI is our longest-term relationship. I would show them the product area for each of the customers every time. If a customer's demand is solely price, if it is a starter point for suede or whatever then we will always go to China because they can't compete in Pakistan but every

other area we will give them preference. We give them the opportunity to quote first against the Chinese, against the Indian....' (LUK1)

... it is a special type of blend; we do it with BP3... if we didn't do it with them then we probably wouldn't do it at all...' (BUK3)

Importers talk about intentions for longevity of relationships and lasting friendships:

'There wouldn't be any financial costs (to switching). The only cost will be you'll lose friends and good reliable suppliers. And we don't see that happening really as such.' (TUK1)

Yet, with the price wars, exporters have seen a dip in their sales. Exporters recount that their business with their exchange partners fluctuates with fluctuating exchange rates. Importers increase or decrease their volumes of purchases depending on where they find greater cost-advantages. When they return their exporters willingly accept their orders again because intense competition does not allow them to be choosy. Importers maintain their friendships while they may reduce, or completely stop, the amount of business. So friendships are strong but there is no loyalty. While social relationships remain intact, business relationships are seen to oscillate with changes in economic factors.

This again emphasises the price-driven nature of business between UK importers and Pakistani exporters and points to the relationship energy between the dyads which is strong enough for the revocability of exchange (Havila & Wilkinson, 2002) with improved economic conditions. Given the dynamic nature of macro-environment, UK importers specifically maintain good relationships with their

exchange partners in order to ensure re-entry according to favourable trade conditions. This is apparent from their following statements:

'...we haven't done any business with them for some time now but we still go and visit them every time we are there and look at their designs and products...' (TUK1)

'Every time I see him he would always politely say "... there is always production available for you left at the mill and we would love to start with BUK1 again" and we would both smile at each other, totally knowing that it is impossible because the price points are too expensive. But it is nice that the culture is still left behind that. They are very good people, very, very honourable.' (BUK1)

'Now we are still very much in touch with them. We still see each other at all of the shows and once in a while I still keep up with their management team... Every time I go over we have dinner and just see what's going on and with the other friends which is very important.'
(BUK2)

5.3 CONCLUSION TO CHAPTER FIVE

This chapter gave an account of relationships between UK-Pakistan importer-exporter dyadic pairs and offered a model of these relationships based on interaction theory. It was observed that in the context of this research, the most dominant feature that stood out was the effect of PDCPs that importers and exporters have come under due to the changing global market structure. These PDCPs affect every aspect of the relationship between dyads under study and pose

a challenge to the long-standing relationships that had formed over years of conducting business together. It was observed that retailers demand ever lower prices because of increased global competition and importers are under pressure to oblige because of retailers' power stature in the channel. These price pressures are passed on to exporters and enhance the effects of country and quality perceptions, altering the overall atmosphere surrounding relationships in such a way that the quality of relationship is adversely affected.

An observation made in the chapter is that social relationships remain distinct and strong in the face of diversity even with reduced, or terminated, business relationships. A model of the relationships is presented which shows PDCPs as a macro-environment factor greatly influencing the social system of macro-environment and all factors within it. It was observed that the effects of PDCPs are far reaching: companies that operate ethically within countries that have well-developed ethical and environmental safety structures may, under the pressure of PDCPs, behave opportunistically in a country where such legislation was not strictly implemented. Similarly, partner-loyalty and long-term orientation do not remain important objectives when race for price takes importers over different countries to gain advantages of ever-fluctuating exchange rates.

Chapter six carries forward the analysis of data and specifically looks at PDCPs mediating effect on relationship from the perspective of relationship marketing by examining the dimensions of RM.

6.0 ANALYSIS OF INTERVIEWS – THE RM PERSPECTIVE

6.1 INTRODUCTION – CHAPTER SIX

Chapter 5 gave the history of the exchange relationships and an analysis of data. It was found that there were similarities in perceptions within industries and within countries but there were differences between perceptions of importers and exporters engaged in a dyadic exchange and, therefore, differences in perceptions across countries.

This chapter is an attempt at explaining UK-Pakistan trade partners' relationships from the perspective of relationship marketing in the context and analysis of the research setting. Literature shows that RM leads to strategic and tactical decisions that result in successful and mutually beneficial long-lasting relationships (Grönroos, 1991).

Analysis of this research showed that the quality of relationships was shaped around trust between partners and their level of commitment to each other, where trust was the outcome of past positive history of the relationship which resulted in reliable relationships between importers and exporters who had confidence that their partners were competent and honest with them and would act in their interest to achieve mutual benefits. Commitment was the long-term orientation towards the exchange partners' relationship, or a desire for continuance, manifested in their long-term orientation towards the exchange partnership, use of mutual strategic planning, investment of time and effort in the relationship, and perception of their switching costs.

Analysis of interviews should that price pressures had double-barrel negative effects on trust and commitment of exporters and compromised relationship strengthening by reducing both trust and commitment directly on one hand, and through increased likelihood of exchange partner opportunism on the other hand.

The second phase of data collection had discovered a marked difference in the attitudes of exporters towards the relationship. This was also the time when price pressures from increasing competition in the retail market and the supplier market had become more pronounced and their effects had begun to put a strain on the relationship structure of the dyads.

The chapter is divided in two parts. Part one, or section 6.2, describes RM related factors that respondents quoted as important in building relationships within the context of the research and part two, which is section 6.3, examines the effects of perceived dynamic competitive prices on those factors.

6.2 RELATIONSHIP BUILDING: THE INGREDIENTS

Smith (1998) defines the quality of a business relationship as comprising of “a number of positive relationship outcomes that reflect the overall strength of a relationship and the extent to which it meets the needs and expectations of the parties” (p.4). According to the experiences that respondents had accumulated during the course of their trade between the UK and Pakistan, and within the context of this trade, the attributes that were most important to them in order to have a good quality relationship were: positive past experiences, mutual trust, openness in communication, honesty, transparency, mutual planning, commitment, dependability, long-term orientation, credibility, reliability, price,

and timely deliveries. These attributes were categorised in Nvivo according to the definitions given by the respondents and compared with literature to establish two attributes that defined RQ in the context of UK-Pakistan trade. These attributes are trust and commitment and they have been vastly accepted in RM literature as the determinants of RQ (Morgan & Hunt, 1994; Lai, et al., 2008; Cullen, et al., 2000). Morgan and Hunt (1994) suggest the presence of both for RQ to gain strength as the absence of one would weaken the effect of the other.

In literature trust is often taken as an antecedent to commitment (Cater & Zabkar, 2009; Geyskens et al., 1996; Anderson & Weitz, 1989). The explanation given for it is that trust is built on past positive behaviour which builds confidence in exchange partners to develop a future outlook to the relationship continuity with greater degree of certainty (Cater & Zabkar, 2009). The analysis of data for this research shows the presence of both trust and commitment as essential ingredients of RQ and therefore it follows that high degrees of trust and commitment in the relationship increase the quality of that relationship for the exchange partners.

The following sub-sections give a categorisation of these attributes and the components that define them, and offer an explanation of how the attributes are manifested in the relationships under study.

6.2.1 *Trust*

The long-standing relationships spanning over five to twenty-five years are the outcome of trust between the dyads where trust relates to an understanding that the partner will not knowingly harm them. For example, the respondents were confident that their exchange partners will not cheat them where financial matters

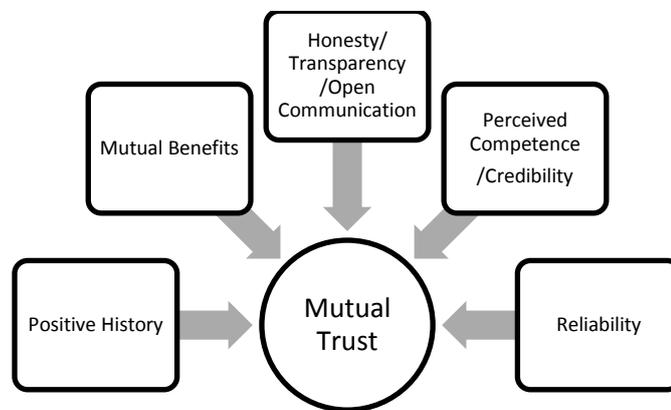
were concerned. Smith and Barclay (1997) define trust as "... the critical factor differentiating effective from ineffective selling-partner relationships". According to Berry (1995) trust is the backbone of RM and the importance of trust is evident from the vast amount of interest directed towards understanding the nature and elements of trust in distribution channels (Anderson & Narus, 1990; Anderson & Weitz, 1989), industrial buyer-seller relationships (Coote, et al., 2003), and cross-border business relationships (Lohita et al., 2008; Skarmeas et al., 2008).

The proposed definition of trust, based on the findings of this research, is that trust between UK-Pakistan trade partners is the outcome of satisfactory and positive past experiences that the partners have with each other where they acknowledge their mutual dependency (Moorman, et al., 1992) on their exchange partner and realise that mutual cooperation and understanding will result in benefits for both the firms. Thus, the definition of trust in the context of Pakistan-UK exporters and importers can be seen under five dimensions:

1. Trust that is the result of a **history** of **positive** performances on the part of both the parties to trade (Dwyer et al., 1987; Ganesan, 1994; Doney & Cannon, 1997);
2. Trust that the partner will show **honesty** which is made apparent through **open communication** and **transparency** in dealings (Doney & Cannon, 1997; Chow & Holden, 1997; Smith & Barclay, 1997; Coote et al., 2003);
3. Trust in the individual's or management team's **credibility** to perform the tasks entrusted to him/her (Ganesan, 1994; Norman, 2002); and

4. Trust that the partner will work towards **mutual benefits** of both the partners (Norman, 2002; Young-Ybarra & Wiersema, 1999) and refrain from opportunism.
5. Trust that the partner will continue to act in a consistent manner and be there as a **reliable** partner in time of need (Smith & Barclay, 1997; Aulakh et al., 1996; Coote et al., 2003; Young-Ybarra & Wiersema, 1999).

FIGURE 6-1: ATTRIBUTES OF MUTUAL TRUST BETWEEN PAKISTANI EXPORTERS AND UK IMPORTERS



Trust is built over time when business partners consistently exhibit an expected level of performance with integrity and transparency in their activities. This Bayesian model of trust is seen to support interpersonal trust between trade partners, whereas the desire to achieve mutual benefits, and reliability in the partner’s operations and expertise, is the interorganisational component of trust. In almost all cases dyadic partners under study are the owners of their respective businesses and true representatives of their organisations.

As such, there is a strong congruence between interpersonal trust and interorganisational trust since the owner himself represents the firm when he acts as the sole decision-maker. Interpersonal trust is emotive and considered as the

“psychological state” (Rosseau et al., 1998, p. 398) where partners hold the belief that their trade partners will behave in a positive and acceptable manner within the moral principles set out implicitly in the relationship. Interorganisational trust is based on rationality and reasoned decisions where interdependencies result in need for reliance on the other partner and explicit governance structures may be institutionalised in order to reinforce an expected level of behaviour.

Thus, mutual trust, as described in this study, is the presence of both interpersonal trust, in its subjective emotive form, and interorganisational trust, in its objective rational state. Analysis of the research shows that interpersonal relationships play a dominant role between UK-Pakistan trade partners and all components of interpersonal relationship, including trust, are key in setting the tone of the relationship. Following paragraphs give details of manifestation of mutual trust in the relationship.

6.2.1.1 POSITIVE HISTORY

Positive history is defined here as the net effect of past positive performances. With emphasis on mutual dependence (Dwyer, et al., 1987) in these relationships it is important that partners entrust each other the duties they are not able to perform themselves (Young-Ybarra & Wiersema, 1999), for example the marketing and distribution of manufacturers’ products by the importers and the manufacturing of quality goods for the importers’ customers by the manufacturers. In their model of buyer-seller relationships, Dwyer et al., (1987) describe a process of relationship building where exchange partners go through various stages before trust in the partner is finally achieved. After the start of the relationship and commencement of exchange, a testing phase is encountered

where the exchange partnership is calculatively and affectively evaluated through repeated exchanges over time (Gulati, 1995). Close personal and professional relationships are those that are found to be reliable and endure the test of time.

From another perspective, the time and effort spent in building up of relationships can be looked upon as an investment in the relationship (Doney & Cannon, 1997), an idiosyncratic investment that cannot be used in another venture because of its perishable nature. In an importer-exporter relationship, both exchange partners spend the time and effort to build the relationship and trust begins to build up when the returns on their investment are positive. In his study of retail buyers and suppliers, Ganesan (1994) found that retailer's perception of supplier increases with supplier's specific investment in people, procedures, and lasting assets.

During their extensive dealings of trade, the respondents have experienced many failed relationships with other trade partners within the two countries (LUK3, BP2, and TP3 for example) but their relationships with the chosen dyadic partners have endured because of the positive outcomes of their past dealings and the mutual understandings that have developed between them over time. The relationships that were terminated with other partners were a result of failure to achieve positive experiences.

As an example, BP2 recited an incident where an importer insisted on a low quote for a product because he said he could acquire it from another manufacturer at that price, but upon investigation BP2 found out that the product with the low price was of a much inferior quality than the one BP2 was offering. BP2 say that their dyadic partner, BUK2, would never try to cheat them into lowering prices through

such tactics because they have been with them for a long time and understand their cost structures and quality. On the same note, LUK1 feel that it is because of the experiences with their suppliers and the relationships they built that they have developed a good supply-base in Karachi.

'... you know most of what we do or most of our business relationships with Pakistani manufacturers have been fruitful. They are not perfect but I think of all the suppliers that we worked with, there are 6 suppliers we still work with for the past 18-15 years, 4 of them regularly.'

While LP2 frankly stated:

'The relationship is more professional. It has nothing to do with trust or something! It is your past experience'

where his emphasis is on separating professional performance from interpersonal trust which is the positive affective component related to social relationships. The better one performs in his/her business, the stronger the business relationship would be. While owners of manufacturing firms and importers continue to foster both interpersonal and interorganisational trust, they keep them as separate and distinct to the effect that fluctuation in interorganisational does not hamper their social relationships.

In his statement (above) while LP2 is not relating past experience to trust, he is emphasising the fact that business is conducted only when one proves himself to be trustworthy through exhibiting desired behaviour consistently over time, and not because he has a personal relationship with the dyadic partner. From a rational perspective, business is not conducted with people simply because they are

friends, but because they have the resources, expertise, and/or required know-how that adds value to one's venture. Interorganisational trust is built when the dyadic partner proves these expectations over time.

'... they trust us. They will trust because it's the history which will make them trust. If I have not broken their trust in the last 15 years then their trust will continue that if I say then I will deliver'

In summary, past positive outcomes result in an expectancy of positive future intentions, and the building of trust.

6.2.1.2 MUTUAL BENEFITS/ABSTINENCE FROM OPPORTUNISM

Mutual trust is the outcome of a positive orientation of the partners towards each other's welfare, or at least a desire to not harm the other partner and expect the same from them (Deutsch, 1958), i.e. to stop oneself from practicing opportunism. Ledingham, et al., (1999) suggested that mutual benefit was the outcome of the rewards (of relationship) being equal to or greater than the time, money, or efforts invested in the relationship. Bruning, et al. (2006) studied the public relation activities of organisations and found that these related positively to public perceptions of mutual benefits by building trust in the organisation. Promise of mutual benefits in a relationship curbs opportunism since it acts as an incentive and reduces the payoff from opportunistic behaviour (Wathne & Heide, 2000).

For the UK importers, trust involves knowing that their trade partner will not cheat them by supplying anything other than what had been agreed on in the contract:

'The problem we found with Pakistan, and a lot of other countries, is that people..... If somebody quotes you a price for this then they will simply send you something else.'

This is the sort of experience they quote as an example of why they have developed trust relationships with their dyadic partners. As an exporter, TP2 realise the importance of building trusting reliable relationships in order to achieve long-term mutual benefits:

'You must deliver the same product that you showed the buyer at the time of sampling...'

The other aspect of trust for importers is the fact that they need to be reassured that their Pakistani trade partner will not approach their client independently to offer direct business by reducing the cost of the importer-middleman. Thus, the importer is vulnerable to the risk of losing business to the exporter who would gain higher profits by acting opportunistically:

'If we send a design for manufacturing to the factory it would inevitably be the client's own brand. So the factory will know who the end-user is. So there is a case of saying... that we made such and such a design for (the importer), we can sell it to you direct; less cut in our margin, in our service. So it does happen.'

Importers go on to say that although one has to be careful while dealing with Pakistani businesses they are confident that their specific trading partners will not act opportunistically and cheat them purposely in any way. The manufacturing-exporters also trust their partners to the extent that they will not cheat them or

show opportunistic behaviour towards them. During the history of the relationship, trading partners worked towards mutual understanding and aimed to achieve mutual benefits, which is a significant quality in the building up of relationships. BUK1, BUK2, and TUK1 engaged with their partners in mutual strategic planning to acquire more business and improve mutual profitability.

They said:

'We actually sat down and decided between ourselves marketing strategies. We actually came up with dual customer identification and we said, "Look, why aren't we going for this customer while this customer is buying from there. What do we have to do to get that business? How are we gonna do it? What's the marrying off process, whether it's the price advantage or product we have to develop? There was a real culture there of how we can maximize the business and we took it from nothing in early eighties then to round about 10 and a half million dollars and that was quite substantial'.

In the towelling business too there was mutual planning in order to improve business for both dyadic partners. For example TUK1 say:

'I think we probably meet each other five or six times a year and we look at different strategies to get more business here in the UK. So you know we do plan and we do look at different ways and different ideas of how to tackle problems, how to try and open new accounts here and in Europe'.

TUK2 have worked with TP2 to develop designs and qualities that TP2 did not initially produce. Although they do not carry out mutual planning together they work on issues in order to give a better product to the customer. Similarly, in the leather-apparel industry, a lot of input comes from the importers, who are also designers, about leather finish, designs, patterns, and trimmings but mutual planning is not part of their agenda. Yet they have worked to form close ties.

In sum, the dyadic partners under study had in the past abstained from engaging in opportunistic behaviour and worked towards achieving mutual benefits for the dyad. Thus, long-term relationships that have occurred between the trading partners under study are because they had not broken that trust and over time had proven themselves to be credible and honest partners. Their history, with its positive outcomes, helped build trust within the dyads. All respondents said that they trusted their dyadic partners to act in their interest, to not harm them intentionally, and to not cheat them in any way.

Thus, among the dyadic pairs under study, a pattern had been set where partners trusted each other to do good by them and not to take undue advantage of them.

6.2.1.3 RELIABILITY

Reliability relates to the belief in consistency of behaviour and status quo of support structure. A reliable person can be entrusted with investments and proprietary information. Reliability is used as an element of trust by many researchers. Ganesan (1994) defines trust as ‘...the willingness to rely on an exchange partner in whom one has confidence’ (p. 2). Coote et al., (2003) define trust as having confidence in the trustee’s honesty, reliability, and integrity.

Reliance is considered the rational component of interorganisational trust where partners may, or may not, trust their business counterparts on a personal level but will continue to conduct business with them because of the possible presence of governance structures that ensure acceptable behaviour. Apart from quality assurance structures and formal modes of payment, the dyads under study did not rely on strict governance structures and reliance was based on an understanding that importers would provide access to UK markets and manufacturers would supply goods of acceptable quality at retailer stipulated prices.

With changes in the global markets and increased price pressures on retail goods exporters see a weakening of their support structure resulting in lessening of trust of the exporters on their importers. They feel that whereas in the past the dyads enjoyed complete trust and confidence in each other, now the importers are more driven by price and have lost their credibility. According to BP2:

'... The UK market for the last 12 – 18 months has less reliability now. Let us say that they did work, gave us a plan, placed business, gave projections, but if they find the same (product) 2% cheaper anywhere else then they will leave.'

This feeling of mistrust is reciprocated by all but one of the exporters in contrast to the history of the dyads where the trading partners worked together, developed synergies, and grew on the support of each other. TUK3 grudgingly said:

'You have to trust them whether you like it or not! What can you do?'

The manufacturing-exporters feel that they are still there to support the importers but the business of export has become very fickle and the importer goes where

price advantages take him. All exporters feel that though their import-partners still source from them, the volumes of their purchases have steadily gone down, leaving them with the feeling that business is being taken away from them.

The larger textile manufacturers of Pakistan are well-developed and geared towards the qualities required by Europe and the UK but Pakistan also has a sizeable cottage industry that is unstructured and able to produce textiles at lower prices than the larger mills because its costs are lower due to cheaper quality, lack of compliance, and tax benefits which it enjoys because it is not registered and therefore does not pay taxes. The registered mills pay a VAT. Exporters feel that importers and buyers buy from the unstructured cottage industry and then complain about quality but where price is concerned they look the other way and enjoy the benefit:

'...they don't want to go to the right people, we can grow more, if they support us, but they don't want that, they want to cut prices and they go there. And as long as they go there those people don't need to change. I think they are at a loss because they are going to lose their base of suppliers, they are going to get bad quality as time goes on, because they are not supporting the right people.'

Interdependence of the importers and exporters had made them rely on each other for support but exporters now feel the support is being taken away from them.

LP2 say:

'Sometimes we don't like this thing... there is no question of loyalties... because they take one sample and they give it to everybody and whoever

gives the cheapest price they give them the order, so personally we don't like this system but they are open, we are open, so if the price will suit us we will except the order otherwise we will not.'

Importers too, are affected by the changing UK market and a drive towards bargain pricing, and find a lot of their retail customers turning towards direct buying from the mills. Contrary to exporters' beliefs BUK1 and BUK2 feel that developing strong relationships with the exporting mills is more important now than ever before. They argue that they would explain to their suppliers that if the customer wanted to buy directly from the mills then they would direct the customers towards the mills by marketing for them and vouching for their quality, pricing, and ethics, thus acting as marketing agents for the supplying firms in Pakistan for those customers who want to buy directly from mills.

This is also a changing role for the importers in that they propose the provision of a crucial link between the customer and the supplier by acting as agents to both and offering both serviced and direct importing to the retail customers. Thus according to both BUK1 and BUK2, there will be some restructuring in the industry and the quality of importer-exporter relationships will continue to play a significant role for the survival of their businesses.

In conclusion, reliability is often used in literature to define the level of trust between exchange partners (Aulakh et al., 1996; Chow & Holden, 1997; Smith & Barclay, 1997; Dyer & Chu, 2000; Coote et al., 2003). In the study, reliability is found to be an issue for both the exporters and the importers where exporters find a lack of trust in the continuity intentions of the importers and a diminishing of

reliability whereas importers foresee a change in roles if the mills start supplying directly to the retailers.

Another important finding is that strong trust relationships are being challenged by the recent price pressures which have changed the structure of relationships with exporters sensing a feeling of neglect from their importers and importers anticipating a change in their roles and business structures. Importers, however, maintain that when they have an order from retailers, their dyadic partners would always be given preference, and the chance to quote their costs before other manufacturers.

Exporters do not share the opinion and feel that their business is taken away from them because they are expected to quote prices that are below their manufacturing costs, and which they are unable to match. An interesting fact is that while business relationships may suffer with reduction in business volume, on an interpersonal level, relationships continue as usual, with the partners meeting and discussing markets, fashions and trends, and the possibility of future business.

6.2.1.4 HONESTY/TRANSPARENCY/OPEN COMMUNICATION

All respondents mentioned honesty, transparency, and open communication to be important in fostering business relationships. In literature, Chow & Holden (1997) present the definition of trust as "...the level of expectation or degree of certainty in the reliability and truth/honesty of a person or thing". The more honest and truthful a person or organisation is, the higher will be the level of trust with him/it. Coote, et al., (2003) also place honesty as an integral part of trust.

Transparency in operations, as opposite to the concealing of facts, opens oneself to audit by the exchange partner and minimises chances of opportunism and breach of trust. It acts as a control mechanism against dishonesty and cheating. The large bed-linen and towel manufacturers such as BP1, BP3, and TUK1 have installed ERP systems which enable the importers and retailers to track goods-in-process and know exactly when a shipment will be ready and freighted.

When importers say that important concepts of trust include honesty, openness, and transparency they are not referring to dishonest or unethical practices because they say that they are certain that their business partners would not exhibit such behaviour. Rather, importers refer to honesty in terms of communication of the stages of work-in-progress to the trading party. In this sense, trust means being open and honest in your communication and transparent in your work-in-process. Importers feel that when the manufacturers face issues regarding delivery on stipulated time or any other problems, they tend to hide the facts from the importers until the last minute, which results in limited choices for rectification of the problem. The importers feel that they would prefer to be informed upfront when issues arise so that they may assist the manufacturers in overcoming the issues.

According to all the UK importers in the textile sample, transparency and honesty are key elements of trust while doing business with Pakistan. To quote TUK1's statement:

'...I think it's being open; very open, very honest with people. We always say to our factories if you've got a problem on quality or delivery

we would rather know about it and we can work with you to get it right rather than waiting till the last minute and saying we got a problem, we can't ship it on time... They wait till the very last minute. Say, you are chasing a delivery and they'll say we've got a problem. (Laughs) So that is still happening with people we dealt with for 20 years. It's just the nature of the mill sometimes'

According to BP1:

'...the relationship, the customer-base we have got, is so long-term based because the company is very transparent. No matter what happens, the company policy is that we shouldn't hide anything. We just put down on the table and discuss and find out the solution.'

In other words, in the context of trade with Pakistan, transparency relates to open communication between the two partners about work-in-progress and delivery timings. Importers who have been dealing with Pakistan understand the problems that are inherent to Pakistan and that cause delays in shipments. They work around these problems and build at least two extra weeks in their critical path which they do not reveal to the manufacturers so that the manufacturers are given shipment deadlines of two weeks prior to the actual ones.

The problems cited for delays are based on the infrastructure of the country and relate to water, electricity, and gas shortages or, at times, machine breakdown or even civil unrest that results in strikes or closure of factories. The importers have strong personal relationships with the manufacturers and are sympathetic towards their issues but insist that their manufacturers should keep them informed about

any possible delays so that they may be able to rectify the problem or, in some cases, arrange for shipment elsewhere. This is also the possible reason why manufacturers are not willing to inform the importers about delays. They fear that their business may be taken away from them if they are unable to deliver on time specially when the importer has sufficient time to make alternate arrangements. However, they are careful not to tarnish their long-standing relationships and do their best to meet deadlines. According to TP1, they meet their deadlines 90% of the time. They agree that importers are supportive and understand the causes of delays. The importers also try and negotiate with the customers when the customers do not receive the shipments on time.

Importers say that Pakistanis are '*eternally optimistic*' in their outlook to life. Although they quote it in the case of potential suppliers who come to their offices and optimistically promise to make anything they want at whatever price they request, it could be applied to keeping information about late deliveries as well. Manufacturers realise that the importer has committed timely supplies to their customers and genuinely believe they will somehow manage to honour that at the end by working harder and longer. They say:

'WE try our best till the end, but when we see that it just can't be done then we inform them.'

Importers do not share this view and some, like LUK1, find it is a cultural issue which sets Pakistani exporters apart from the UK importers:

' not that, I don't think they are generally dishonest. I think they are naive; I think they try to facilitate instead of accommodating the truth,

they facilitate the truth and that's totally different, because if they actually took the truth on board and said look this is not right. They always say it's gonna be 7 'o' clock tonight, or 10 'o' clock tonight. It's gonna be like in... (laugh) well fine, but it was gonna be shipped today, so these sort of things'.

Quite often the delays result in the manufacturers sending shipments by air which doubles the cost of freight for them. All the exporters agree that there are delays at least 10% of the time. In LP2's words:

'We have delays. You know in Pakistan we have strikes and this and that problems all the time... so far we have not been penalised. Sometimes we have to make the shipment by sea and if the shipment is late then we have to airlift the shipment on our own cost. So this is something that we have... but I guess if the delays are more often then obviously they will cancel the order. Obviously they (the customers) are not happy.'

At times when timely information about delays has been communicated to the importer then the two parties work out a solution, or air freight may be shared between the two. Importers who have been with the exporters a long time understand the issues involved but manufacturers who export directly to the retailers find that the customer is not flexible and would penalise exporters for late deliveries. Penalties range from buying goods at cost to non-acceptance of shipment by the retailers. BP3, who mostly sell through importers, say:

'The specialist importers who have their own manufacturers are very understanding, but retail suppliers or direct shops have no space for any

delays. If they ask for a shipment on a particular day, they want it on time, without caring of what has befallen us.'

In towels, TP2 share LUK1's views and feel that culture plays a role in setting work ethics of a country and blame the society for the inevitable delays in their deliveries. They say that it is in the nature of the nation to leave tasks to the last minute.

'This involves the culture of a society. Business ethics are developed from this culture. The intentions of the society will cause its development. If I procure yarn from a spinner and he does not deliver on time and when he does, the goods are of a sub-standard quality, what am I to do?'

TP2's feeling is shared by most of the importers who see a lack of professionalism in not meeting delivery dates. For example, LUK2 muse over the fact that religious and national holidays are known facts and they should be built in the critical paths at the early planning stage but exporters use them as excuses for not making their shipments on time.

Open communication and honesty are the flagship qualities that make TP2 very important for TUK2 who find TP2 very easy to work with and very forthright and cooperative in their dealings with them. Similarly, TP2 consider mutual trust, openness, transparency, and correct and reliable communication where truth is conveyed to be important qualities of a sound business relationship. TUK2 pay TP2 50% of the price upfront before production starts and TP2 claim that it is due to the trust that exists between the two partners. Interestingly, respondents of

TUK2 and TP2 have never met one another because the relationship was started by the owner of TUK2 who had visited Pakistan to look for suppliers of quality towels five years ago and that was the only time he met the owner of TP2. It is the Purchasing and Quality Manager (the respondent) who deals directly with TP2 and who has developed a close informal relationship with them through communications on the phone alone.

Exporters' view of honesty regarding the importers has been altered with the changing market scenario and the price pressures that all traders are under. In the case of the exporters, they find that the importers are not always honest with them about the retail prices of the products they produce but they know that the importers are not purposely harming them by not revealing the retail prices the final product would sell for. They feel that in this way the importers keep a larger share of the commission than they declare but they also reassure that it does not directly affect their relationship as long as they get the agreed price.

As an example, TP1 talk about an incidence when TUK1 told them that the price for an item was £2 but they later found out that it was £3. They say that the importers did not cheat them out of their money since they got what they had manufactured for and it was fine if the importer made extra money on the product. In fact, it is the feeling among the manufacturing-exporters that importers tell them lower prices than the actual ones in order to get lower quotes from them but they feel that as long as they get what they have been promised they are satisfied and they know that there will not be a financial dishonesty from their partners.

BP2 also had a similar line of reasoning:

'Well, I trust these two clients of mine in a way that they will not cheat me in the real sense. Of course, they might say that we want this for two dollars as Gul Ahmed is selling it for two; maybe they are selling for three'.

Thus, although both importers and exporters quote honesty and transparency to be important ingredients of trust, both parties find that their trade partners are not always completely honest and transparent with them. Exporters do not consider the example above to be a concern and treat it as the importers' "negotiating tactics". Importers, however, would like more open communication and transparent operations since delays in delivery result in their inability to meet retailer deadlines.

The issue of price pressures from the retailers has a negative impact on trust between the trading partners. The second and third round of iterative interviews revealed that a feeling of distrust had started to emerge among exporters who felt that importers were under such price pressures from the retailers that they were willing to be dishonest regarding issues such as compliance. The UK retailers have become very strict about compliance in firms that they are sourcing from. But compliance comes at a cost. Firms that follow the rules and are fully compliant have water treatment plants and high labour and maintenance costs which are ultimately reflected in higher product prices.

The second and third rounds of interviews showed that firms like BP1 and TP1, who are fully compliant, find that they are being cheated out of their business and are used by importers who bring buyers from retail outlets such as *Next* to show them their plants. Once the retailers approve their plants for manufacturing and

return to UK, the importers buy very little volumes from them and place the rest of the orders at the smaller and cheaper mills to benefit from cost advantages and to offer retailers the price points they demand. Manufacturing-exporters find this frustrating and their trust in the importers is diminished due to the importers' opportunistic behaviour and non-reliability. BP1 express very strong feelings about the compliance issue:

'No they are totally lying...on compliance...They don't do anything it's just price. This is just a show or façade to show to the British public or to show to the government that they are doing all this. And it's just a public relations exercise. Here when it suits them they do whatever they want... They say that but then they show them one or two compliant factories and then they ship their goods from somewhere else.'

TP1 seem to share BP1's feelings and project them to the retailers as well. They say:

'And then even the shops like X and all. They've also broken all the rules, Y; they're buying through importers when it suits them. And break rules through the importers then nobody can catch them on compliance because then they are not responsible.'

To validate their point TP1 give an explanation of how they are aware that large compliant retailers are buying from non-compliant firms:

'Because I know all the factories in Karachi and there are only about three who have an effluent treatment plant. They (importers) are buying from everybody. We know from the packaging people from all the (other

service providers)... *where the goods are going because from the packaging we find out where X is going, where Y, where Z,.... is selling. So, all the packaging is going to which factory'.*

Thus, a strong feeling about dishonesty of importers is developing among the exporters for their trading partners and this is the consequence of the changing market structure. Their long-standing trust is being compromised because of change in the market structure and this has a negative effect on the quality of relationship between the importers from UK and the exporters from Pakistan.

To sum it up, importers treat honesty, transparency, and open communication as synonymous. It is seen that honesty, transparency, and open communication, together with faith in the exchange partner's competence are the most important characteristics for the importers dealing with manufacturing-exporters from Pakistan where importers exhibit lack of trust in the willingness or ability of the exporters to deliver the products on the specified dates. They build in their systems alternate critical paths and methods of chasing after the dates to ensure that customers are not aggrieved into penalising them as well as the exporters. Exporters understand this to be an important issue in their trade and invariably all have emphasised the three concepts as the most important qualities of their relationship.

Interestingly, while importers mentioned the importance of exporters being honest and transparent, exporters also projected that on their own performance, and not on the importers'. This shows that exporters agree that the qualities of transparency and open communication are important attributes that they should have and did not mention whether they sought these qualities in the importers.

Upon request for further elaboration of the terms, they mentioned open communication about issues in production and likely delays and the importance of conveying the information to the buyers as a priority so that a mutual solution could be arrived at.

On the other hand, importer dishonesty has become apparent as a current issue that exporters are concerned about as they feel the importers are untruthfully bypassing them to source from non-compliant firms and are projecting them as ethical sourcing. Exporters feel that importers have started exhibiting opportunistic behaviour by taking advantage of their compliant plants in their own self-interest without regard to the manufacturers' interests.

6.2.1.5 CREDIBILITY

Credibility of exchange partner is taken here as the belief that the exchange partner is competent and can perform the duties that he is entrusted with. In the words of Norman (2002), trust is competence-based when there is "...a belief in the other party's ability to perform" (p.184). In the context of this research, it refers to importer's expectation of the exporter's ability to deliver the quality expected of him. In the same way the exporter expects the importer to fetch the price equal to the quality demanded by the importer.

With the price pressures acting on the exchange partners and the retailers demanding good quality as well, both partners to the relationship are in a state of tension because costs of production have risen while the prices of products are lower in real terms. When two parties are engaged in relational exchange and are dependent on each other for the achievement of their objectives, then they must

entrust their exchange partners with activities that they cannot perform themselves even if there are no control mechanisms to ensure quality performance of those activities (Mayer, et al., 1995).

When importers came to Pakistan in search of manufacturers for textiles and leather garments, they did an audit of all the firms to see their level of competence before placing an order. The fact that they make use of sealed approved samples is indication of a control mechanism to safeguard their interest. This works for both the importers who are protected against receiving goods that were not agreed upon, and the exporters who are protected against rejection of shipments because the retailer did not think they were according to the specifications agreed upon.

Control mechanisms are systems of control put in place to check opportunism and enhance channel performance (Brown et al., 2000). Different types of control mechanisms are ownership of resources or systems in the exchange partner's firm (Anderson, 1988; Williamson, 1975), investment in transaction-specific assets (Anderson & Weitz, 1986), and relational exchange norms (Brown et al., 2000).

Analysing the definition of RQ as given by TUK1 once again, another aspect of transparency is about issues in quality that the importers would like to be informed about on time. Quality of the product is important for the survival of both firms and all importers talk about instances where they have had bad experiences with the quality of products delivered to them from suppliers other than their dyadic partners.

All importers claim that their experience and history with the manufacturing partners is so strong that they know that what has been promised will be delivered.

This implies strong trust in the manufacturer's ability and competence. Yet, on closer look, it appears that importers play a significant role in the area of QC where the big importers of bed linen and towels, i.e. BUK1 and TUK1, have teams of dedicated managers who, although they are employees of the manufacturers, work on behalf of the importers to ensure QC as specified by the retailers and report back directly to the importers. BP1 and TP1 each have a floor in their factories dedicated to the importers' QC team who supervise and oversee all matters relating to quality.

BP2 also reported that their trade partner BUK2 had brought a team of *Marks & Spencer's* buyers to inspect the factory and they insisted that although they liked the product quality, factory, prices, and the designs, they would only place an order if root-cause analysis is presented by the QC department and this software system is made operational on a continuous basis. This close monitoring by retailers and importers of the manufacturers' operations emphasises the role of dependency and trust, or lack of it, on the part of the importers.

Though the importers claim that they trust their trading partners to provide the quality expected of them, they take strong steps to ensure that it meets the requirements of the retailers. Where the importers do not have dedicated QC teams on the manufacturers' premises independent QC teams are hired to maintain checks for them. However, in the case of TP2 who provide bleached white towels to TUK2 for the hotel industry no specific quality check is required and TUK2 trust TP2 to use their own QC procedures. Once the shipment arrives in UK, TUK2 check the entire shipment and use sophisticated equipment like metal detectors to ensure quality for their hospitality clients who are very particular

about quality since they are five-star hotels and must maintain their image through every aspect of their service.

Quality is an issue in leather garments because leather is a product of animal hides and it is difficult to achieve consistency in many aspects of the final product, for example dyeing, texture, and finish. Another aspect of leather garment manufacturing is that it is a labour-intensive industry and as such prone to human error. LUK1, LUK2, and LUK3 are very involved in the entire process of garment manufacture while LUK1 also participate keenly in the process of leather production from hides for garments. LUK1 and LUK2 also send their QC teams for inspection before shipments are made while LUK3 use the services of an agent to conduct the inspection for them. LUK1 have Pakistani QC staff in Karachi who oversee all their shipments in the various factories they buy from whereas LUK2 use independent QC bodies to carry out the inspection for them.

There is a higher level of trust in the competence and ability of the manufacturer in the textile industry as compared to leather garment industry. This could be due to the nature of the industry where textile industry is automated at various levels whereas the leather garment manufacturing is labour-intensive. Pattern cutters of leather garments do not have specialised training and have mostly learned on the job while mostly semi-skilled labour is employed for other tasks such as stitching. Thus, the nature of the product and the nature of the production process are both subject to human error.

According to LUK2 Pakistan's leather garment industry was established about thirty years before China became a force to reckon with but unfortunately it did

not make use of the good head-start it had over its competition. Leather garment importers feel that they have been training the manufacturing-exporters for the past many years and chuckle when they say:

'You'd think they'd learn by now!'

Since logistics are a major part of the importers' costs, LUK1 and LUK2 get involved in ensuring that manufacturers label, iron, hang, and ship the leather jackets in a ready-to-retail condition direct to the retailers so that the cost of unloading and reloading by the importer is eliminated. This increases the involvement of the importers in the final stage of the production process as well. LUK3 get their shipments sent to their warehouse where they perform all these functions and then distribute to the retailers.

As a summary, though exporters have confidence in the ability of importers to market and sell their product, we see instances where there is lack of trust by importers in the manufacturers' ability to provide ready-to-retail goods that meet retailers' demands. This is apparent from the fact that although the importers trust that the firms have the infrastructure in place to make them credible sources of supply, they feel it is necessary to closely observe certain aspects of the manufacturing process, such as QC, in order to ensure expected level of quality.

6.2.1.6 SUMMARY OF TRUST BETWEEN IMPORTERS AND EXPORTERS

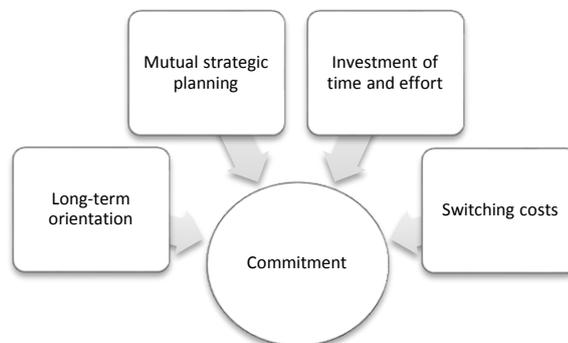
Importers and exporters in the sample define trust as the outcome of past positive experiences where reliable relationships are formed between trading partners who have confidence that their partners are competent in what they do and honest with

their exchange partners and will act in their interest to achieve mutual benefits. In the order of importance to them in the context of this business relationship, the importers rate honesty and competency as most important while the exporters rate honesty and reliability to be the most important values of trust.

6.2.2 Commitment

Commitment is the desire or motivation to continue the relationship with the trading partner, or to have a long-term orientation towards a business relationship (Ganesan, 1994) and it is manifest in the relationship by putting substantial monetary and non-monetary effort towards building that relationship (Ryu, et al., 2007).

FIGURE 6-2: ATTRIBUTES OF COMMITMENT BETWEEN PAKISTANI EXPORTERS AND UK IMPORTERS



All importers in the study claim that they are very committed to the relationship. This commitment is apparent from exchange partners' desire for longevity of relationship with their partners, mutual strategic planning, investment of time and effort in the relationship, and the way they anticipate their switching costs of moving away from their trade partners (Figure 6-2).

6.2.2.1 LONG-TERM ORIENTATION

Commitment is an outlook towards the longevity of the relationship where mutual benefits are seen as outcomes of remaining in the relationship (Stanko et al., 2007; Ganesan, 1994). Longevity, or long-term orientation towards an exchange relationship is defined as a firm's desire to remain in the relationship and, in the process, to forgo short-term benefits for long-term gains (Lohita, et al., 2008).

The propensity to stay in the relationship and to honour it is high in exchange partners who are committed to the relationship. Committed exchange partners will be less inclined to leave the relationship for short-term gains when an opportunity presents itself (Skarmeas, et al., 2002). For example, TUK3 and their trading partner TP3 believe that the strength of a relationship lies in the desire to continue business rather than make short-term deals because they may sound more attractive at the time.

Thus, even if in the short-run profits may appear to be squeezed the benefits of a long-term relationship will always outweigh them. This concept of longevity is maintained through an understanding about the trading partner and acknowledgement that both need to make a profit to survive. TUK3 say:

'But I still believe we are very much a rare animal in actually having that mentality that we are looking for longevity, we are looking for open-trading, we are looking for this, you know, sort of consistency in business to actually have done its cost-benefits.'

For example, TUK1 explicitly state that they are...

'...very committed. We've had our ups and downs as every relationship has where things have not gone right and we've not done things right but we stuck by each other and I think we've got a very, very strong relationship.'

They also state that they do not like to switch suppliers and have been dealing with the same companies in Portugal for the past 25 to 30 years. They find that switching suppliers wastes valuable time and resources which could be better utilised building relationship strength.

'We like to work with the company and build with them. We like to be strong with them...'

Similarly, BUK2 find that their relationship is marked by commitment where the two firms share a history where they stood by each other in trying times and helped each other out:

'We've been together for seventeen years and we are also.....we have been through thick and thin, lots of things such as quota, cotton shortages. We have been through it together and supported each other. So ya definitely, we are very committed to the relationship.'

LUK2 expressed their desire for longevity by stating that they want to continue the business with their partners by searching for prospective business and conducting R&D on leather with them:

'I think our future plans are to at least maintain the amount of business we do; look at innovating, look at improving qualities, look at gaining market share here with their support.'

On the same lines, other importers like TUK2, and LUK2 talk about commitment with their trade partners. Commitment for the Pakistani exporters takes on a different tone, where they consider the calculative form of commitment rather than the affective one like the UK importers. For example, BP2 consider commitment as calculative, where benefits of being in the relationship are weighed against the costs:

'See the commitment would also have this idea that what kind of relationship you want to develop with that customer. If we are talking in terms of business, what exactly do we think we can achieve from this and what exactly does the customer think he can achieve from us.'

Similarly, TP1 say that they are committed to the relationship and so are their relationship partners so long as they both perform well. If they do not, then there is no obligation. The feeling of being put under the blade because of price pressures is apparent in Pakistani exporters' feelings towards commitment. They do not feel that the relationship would last if they are unable to produce at the price points of their competitors. As an example, BP1 say that:

'We are important as long as we are competitive. If we are at the same price, they will buy from us, that's the only thing... we can sell as much as we want as long we have the same price as everybody else, so we can sell, they (competitors) can't sell, if we are ready to sell but for the

pricing we have to be super-efficient. In the end they will not give us extra price for being what we are, but they will give us preference.'

In other words, they believe that their long-standing relationships and personal friendships with the importers would guarantee trade so long as they are able to meet the retailer's price points. If they are able to offer the product at the same price as the competition, then BUK2 would definitely give them preference. But offering lower competitive prices is becoming more challenging for the large-scale compliant firms and the manufacturing-exporters are aware that importers would seek out cheaper sources if competition is able to offer lower prices. This implies that manufacturing-exporters do not consider importers as committed as the importers quote themselves to be. It also shows that although interpersonal relationships may be strong, the business relationship is volatile, price-driven, and tends to fluctuate in favour of lower prices.

TP2 also express the same sentiments and point out that:

'At the end of the day everyone is here to do business. For 3-4% the importers will stick to their suppliers, whom they have good relations with, but if they find a major price difference like 10%, they will definitely move.'

TP2 are referring to the 10% tax advantage that Bangladesh has over textiles which makes Pakistan's product 10% more expensive.

To sum up, UK importers see relationships as long-term ventures to which they perceive themselves very committed whereas Pakistani exporters exhibit their state of uncertainty and do not believe in importers' commitment. They have the

feeling that their partnership would last only as long as they are able to supply at the price points, otherwise the business would be taken from them. The difference in perceptions could be attributed to the relative positions of the two trade partners where Pakistani suppliers are in a state of uncertainty while they are working to improve their processes and bring efficiency to their production. They have seen a decline in supply orders from their trading partners and do not know whether the relationship will continue. UK importers, on the other hand, have more sources of supply and do not foresee a sudden drop in their business although they have begun to plan for change if the market structure evolved and they had to meet the same fate as the agent industry. According to TUK3:

'The agent industry is dead and the importer industry will go the same way. Markets keep evolving and we have to be ready for change'.

Their planned change includes alteration in their services where they see themselves as offering various packages, advice, or recommendations to retailers depending on retailer needs as explained in chapter 5. This changed role means continuation of relationships with the manufacturers in the foreseeable future. Therefore, importers maintain their social and interpersonal relationships with a view to increase the volume of business when economic conditions are favourable towards imports from Pakistan. Importers realise that economic fluctuations are frequent and retailers will eventually accept higher prices when the costs of manufacturing rises globally. (This has already begun to happen by the time of resubmission of thesis and the importers have started increasing trade with Pakistan, especially in the leather garment industry where Pakistan is slowly emerging as the cheapest source of supply).

Whereas the exporters were disgruntled due to decreased volumes at the time of the field study, the importers maintained their social and interpersonal relationships and continued to visit their Pakistani counterparts, and to assure them of their commitment to the partnership through small volumes of orders. This strategy is helpful when importers want to increase their volume of trade in favourable times because of the perception of continuity of business.

6.2.2.2 MUTUAL STRATEGIC PLANNING

Strategic planning involves decisions regarding the long-term objectives and goals of an organization to determine what direction needs to be taken for development and growth. When trading partners perform mutual strategic planning it is an indication of their commitment to the relationship and their desire to formulate strategies of growth together. Thus mutual strategic planning could be seen as an element of commitment where high levels of commitment between exchange partners is an outcome of their goal congruency and the desire to pool resources for future mutual benefits. Also, if the nature of the exchange partners' relationship is such that they must plan ahead together in order to perform their activities then they become committed to the relationship at least for the duration of execution of those plans.

The historical events of BP1 and BUK1 highlight the closeness of the owners and their desire to work together for mutual benefits which resulted in their ability to make strategic decisions together regarding, for example, decisions on how to cater to 80% of the mainstream commercial market and with it strive to reach the other 10 or 20% of the top end through low-volume high-price products. To this end, the management teams would sit down together and plan how to enter the top

range market by deciding on the investments and the marketing necessary to do so. The importers would put forward the requirements of the customers and the manufacturers would plan the processes necessary to cater to those requirements. Such mutual strategic planning was deemed necessary to achieve the objectives of both the dyadic partners. TUK1 and TP1 also mention working together to set objectives for future growth:

'But they were the first people that we were actually able to develop the common grounds and mentality in marketing where we could push it through'

BUK2 feel that mutual decision-making is a very important part of their trade since both parties have a vested interest in the business and working for mutual benefits strengthens the bond:

'I think we probably meet each other five or six times a year and we look at different strategies to get more business here in the UK. So you know we do plan and we do look at different ways and different ideas of how to tackle problems, how to try and open new accounts here and in Europe.'

Although the rest of the firms claim that strategic matters are discussed through meetings with the partner, analysis of the interviews revealed that it is mostly to set a price point rather than to make important strategic decisions. The importer is given a price by the retailer. His job, then, is to convince the manufacturer to make it within a price point which would result in profits for both the mill and the importer. LUK1 explains it as working backwards from the price given by the

retailer to decide what kind of leather would fall in the price range and with what finish.

To conclude, some mutual strategic planning is carried out by the dyadic pairs where bed linen manufacturers are more heavily involved in it than the other pairs in the rest of the product categories.

6.2.2.3 INVESTMENT OF TIME AND EFFORT

Commitment is greater in a relationship the higher the idiosyncratic investment in it. Idiosyncratic investments are investments that are unique to a relationship and are not easily transferable anywhere else, and therefore, have little use outside of the relationship (Heide, 1994; Shelanski & Klein, 1995). During the initial stages of the business relationships, UK importers were keen to set up trade with Pakistan and had made investments in the business relationships. As mentioned in chapter 4, some of the importers in the sample had come to Pakistan after closing their manufacturing units in the UK and had supported their business partners by sending over some machinery from their old abandoned factories. Some importers also mention sending specific machinery such as scanners to their business partners.

Apart from these, the dyadic pairs under study did not have any specific monetary or human assets invested in each other's business. However, there was investment of time and effort in order to understand each other's cultures and business practices and to make adjustments accordingly (Zaheer & Venkatraman, 1995) and the respondents viewed these as substantial investment. It is this learning that importers talk about when they emphasise that they are indispensable to retailers

because they have invested time and effort to understand the Pakistani business mentality well, an asset that retailers do not have and are not willing acquire. Importers say that the retailers are not willing to invest the and effort required to develop these understandings are instead utilise the services of importers who have, over time, become well-equipped in supplier market knowledge and are able to procure shipments for the retailers.

Idiosyncratic investments, or asset specificity, have a positive effect on the relationship between exchange partners who feel committed to their relationship because of the investment made since the investment is of a nature that it cannot be redeployed to other activities easily. On the flip side, highly specific asset commitments bind the investor to the relationship who then becomes susceptible to opportunism from the receiver of the investment. However, from relational exchange perspective, trust in partners acts as a governance mechanism and curbs the desire for opportunism (Ganesan, 1994).

UK importers say that a lot of teaching and learning was involved in the early days of the trade and this is why they now feel very settled in Pakistan. Pakistani exporters also mention '*mutual understandings*' that evolved out of their long relationships with each other. According to BUK1:

'Everybody has educated everybody together but the culture has completely changed'.

They also ran training programmes and developed a handbook for all the suppliers with pictorial and written instructions. They had the book translated in Urdu by one of the mills so that the shop floor staff could read it. This book was not

specific to Pakistan and was later translated into Chinese and Bengali. Their business counterparts, BP1 also invested in machinery equipped to cater to the European designs. BUK1 feel that BP1's greatest investment is

'... the investment in the mentality and the longevity of it. That's the best investment you can hope for.'

Relationships spanning twenty twenty-five years have, as the key to their success, the understandings that have developed and the history that bonds people together. Of interest is the fact that BUK1 has been very keen in teaching and learning and feels *'terribly committed to the relationship'* but his partner-in-trade, BP1 is very disillusioned by the perceived change in the attitude of BUK1 and by his actions to get cheaper sources of supply by using BP1 as a platform. During his second interview, BUK1 did not give the impression of distancing himself from BP1, contrary to BP1's belief.

BP1 constantly invest in their machinery to acquire the latest technology and at the time of the second interview, they were in the process of increasing efficiency by installing some new equipment to their *'Rolls Royce'* mill. These financial investments are not relationship-specific but result in a better product, at a reduced cost, for both the partners. BUK1 say that BP1's biggest investment in the relationship is:

'...supplying quality goods and the long-term relationship and that's a huge investment...'

BUK2 talk of learning to interact with the Pakistani business people through their relationship with BP2. Learning involved understanding of Pakistani culture,

organisational culture in BP2, and the negotiating skills required to work in Pakistani environment. This learning was transferable to other mills that BUK2 contacted and started operations with. In BUK2's words:

'... we've learned the way to negotiate, the way to work with them, the way to work effectively which is basically, you know, it's gonna be good for both of us.'

LUK1 also consider their learning and teaching to be an investment in their relationship. Although there has been no direct financial investment in the other partner's business, there has been ample transfer of knowledge from LUK1 to LP1 in the leather-processing unit and the leather-apparel unit. The learning that occurred over the years and the understandings that have developed are transferable with small modifications to other companies in Pakistan. On the face of it, the transferability of this knowledge may render it not unique to the relationship, but the partners are very appreciative of it and feel that they have a closer bond due to the knowledge transfer and feel committed because of it.

'We spend a lot of time as a company sending staff out: training, machinery, pattern cutter. We've done... we spent time with their pattern cutter to show how we would manufacture or what we would like to accept or how to achieve certain things. And it has improved...'

To sum it, company-specific investments did not take place between the dyads under study but over the years there has been a lot of transfer of knowledge through interactions and training. A special case is that of TUK2 and TP2 where the two working partners have never met each other but have been developing

products by mutual collaboration. TUK2 sends samples of product to be made over to TP2 and then through telephonic conversations and sample posts they discuss the alterations that need to be made to acquire the correct finish.

6.2.2.4 SWITCHING COSTS

Switching costs are the costs incurred in terminating business with a business partner and can be monetary or non-monetary. In literature, perceived switching costs are said to increase with the passage of time because of the time and effort that goes into maintaining and strengthening it (Weiss & Anderson, 1992).

From a relational perspective, the investment of time and money in the relationship can be viewed as sunk costs incurred in the process of building the relationship. If any of the partners decides to terminate the relationship and establish a new one with another exchange partner, substantial amount of effort and time will be required to bring it up to the level of trust and understanding that the partners enjoy in their present one. BUK2 feel that the monetary cost of switching business from BP1 to another factory would probably be a trip to Pakistan and some time spent to come to such terms with the new factory where they could get the price points BP2 would give them. BUK1 had calculated this cost in quantitative terms and proposed that the cost of shifting their business to a new manufacturer would be 3% which is substantial when we talk of large volumes.

For the exporters, switching costs are substantial if the previous buyer is not immediately replaced otherwise they believe they have the production systems set up to start manufacturing for any other company. LUK2 calculate the switching

costs as loss of friends and so do TUK1 while for LP1 the costs involve the search for new buyers:

'Then you have to do more marketing. You have to go to more international sales. You have to visit more countries you know. The marketing expense increases obviously if you are looking for more customers.'

BUK1 and LP1 mention that they are friends with many people who they are no longer buying from and visit them regularly every time they visit Pakistan or the UK and, therefore, they do not think that changing suppliers would result in their losing friends. As with other aspects of interpersonal relationship as seen manifested in the dyadic relationship, interpersonal relationships continue even though interorganizational relationships have been terminated. Implicit in this behaviour is an outlook towards one's self-interest where both ex-partners maintain social relationships in order to keep the doors open for a chance to renew business ties when the conditions and needs demand.

In sum, switching costs are mostly affective in nature rather than monetary but take on a monetary aspect if marketing expenses for new markets is calculated. High switching costs discourage the annulment of a relationship.

6.2.2.5 SUMMARY OF COMMITMENT BETWEEN IMPORTERS AND EXPORTERS

In sum, commitment is the exchange partner's belief that the relationship with the partner is "so important as to warrant maximum efforts at maintaining it" (Morgan & Hunt, 1994). In the context of this research commitment is manifest in the

exchange partners' desire for long-term orientation, their motivation to carry out mutual strategic planning with their exchange partners, the time investment of time and effort in the relationship, and their estimation of monetary and non-monetary switching costs.

Inferences drawn from the analysis of commitment to the relationship show that importers and exporters hold various views regarding their desire for longevity in the business.

While both trading partners have a desire for longevity and strive towards it, their motivations for doing so are different. Analysis reveal that the exporters are very dependent on importers to provide them access to UK market as this route plays a dominant role in maintaining relationships with large retailers. Exporters, therefore maintain social relationships with importers, even when business volumes are low to nil, in the hope that business would return when the PDCPs have subsided. Importers maintain ongoing relationships with exporters even in the face of declining sales volumes because they want to have access to manufacturer suppliers when economic conditions favour imports from Pakistan.

It can, therefore, be said that social bonds play a key role in determining commitment to the business. While business relationships follow their ebb and flow and experience the hype of PDCPs, social and interpersonal relationships help maintain bonds between business partners so that business can continue as usual when the manufacturing-partners are able to match retailer prices.

The next section is a return to the RM concept and discusses the effects of perceived trust and commitment on the quality of importer-exporter relationships.

It also briefly discusses the role of the retailer in shaping and impacting these relationships. A special mention is made of the case of importer opportunism on trust and commitment and its impact on business and social relationships.

6.3. COMMITMENT, TRUST, AND THE EFFECT OF PDCPS ON IMPORTER-EXPORTER RELATIONSHIP

RM revolves around building loyal customer relationships. In business-to-business relationships loyalty is achieved when both parties to the trade experience sustained fulfilment of their expectations over time and are assured of mutually beneficial behaviour where they see a desire in the trade partner to do good by them (components of trust) and to prove long-term commitment to the relationship. In relationships where trust and commitment are lacking or deficient, it is difficult, if not impossible, not achieve loyalty.

The concept of RQ measures the strength of a relationship and is considered in literature to be the essence of that relationship. According to TUK1, relationship quality is '*...the soul of the relationship*'. It represents the overall affective evaluation by the exchange partners of their business relationships. Literature presents RQ as a higher-order construct comprising of trust, commitment, and satisfaction in most of the studies (Dorsch, Swanson, & Kelley, 1998; Ulaga & Eggert, 2006) and as higher-order construct comprising of trust and commitment (Morgan & Hunt, 1994; Hewett, Money, & Sharma, 2002). According to Ulaga and Eggert (2006) the concepts of trust, commitment, and satisfaction are 'soft' factors, or 'atmosphere dimensions' (IMP group) of buyer-seller relationships that observe the behavioural aspects of the exchange relationship.

The analysis of trust and commitment in this chapter reveals that both have a direct effect on the quality of relationship between UK importers and Pakistani exporters. This is in accordance with the commitment-trust theory proposed by Morgan and Hunt (1994) which has been adopted by many researchers. There is strong evidence in literature to support this relationship (Solberg & Nes, 2002; Leonidou et al., 2006; Nes et al., 2007; Skarmeas et al., 2008). For example trust in the exchange partner increases commitment to the relationship by investing in it because the elements of uncertainty and risk are minimised through the forces of trust (Dwyer, et al., 1987).

From the perspective of commitment, committed resources in the relationship increase commitment to the relationship and the parties are forced to trust their partners to not act opportunistically or use the invested resources for unilateral gains (Wathne & Heide, 2000). Thus, both trust and commitment work together to increase the quality of the relationship and bind the partners in-trade to each other for long-term future benefits.

RM perspective aims at building long-term relationships with suppliers with a view to building collaborative partnerships that result in value-creation, improvement of quality, and cost management (Bridgewater & Collin, 2002). To this end, most importers and exporters make strategic decisions together in order to find ways to serve their customers better and capture larger share of the market.

Historic accounts of the dyads tell a story of mutual collaboration and trust where partners have worked together to develop strong interpersonal and interorganizational bonds that have helped them grow and flourish together

(Chapters 4 and 5). Dyads recount of times when the prices fluctuated but the partners helped and supported each other and “...rode the wave together” (TUK2).

However, recent market structure changes (Chapter 4) and the advent of PDCPs have shown that business relationships are susceptible to market fluctuations but interpersonal relationships and social bonds are strong and can withstand the onslaught of external market forces. Exporters have been acclaimed by importers to be excellent hosts and very good at developing and maintaining personal and social relationships. Analysis reveals that importers also engage in developing and maintaining these relationships and foster them through constant interactions and reinforcements.

Friendships, mutual reciprocities, and benevolence are common features of UK-Pakistan importer-exporter interactions. Thus, even when interorganizational relationships terminate, interpersonal and social relational continue on and provide the crucial link necessary for return to business relationships when desired.

6.3.1 *Retailer Power and the Impact of PDCPs*

Power is simply defined as an asymmetric behaviour pattern among channel members (Wilemon, 1972). It can be conceptualised in the context of relationship when considering it as a perception of power that one channel member holds over another (Thibaut & Kelley, 1959). According to El-Ansary and Stern (1972, p. 10) the perception itself may be regarded as ‘the source of power’.

For the importers and exporters of the study, the perception of power in the supply-chain rests with the retailer who is the “channel captain” and owns large retail houses that are the end destination for the chain. Retailer power can be

thought of as coercive when the retailer is in a position to reward behaviour that is pleasing, and punish when the behaviour is against the retailer's wishes, or it can be thought of as being non-coercive when the retailer has legitimate power based on contractual agreements or other formal structures. Coercive power tends to weaken the forces of trust and commitment while non-coercive power has the opposite effect (Leonidou, et al., 2008).

In an asymmetrical relationship between two persons, power is the ability of one person to alter the behaviour of another, especially when that person would not have done so otherwise (Gaski, 1984). Large retailers hold power over supply-chains because of the sheer bulk of products they buy. This power may be both perceptual, or non-coercive when implemented through contracts.

The importers in the supply-chain are dependent on these large retailers to buy their supplies (Emerson, 1962). This power-dependence goes further down the supply-chain to the manufacturer because as competitive supply increases the supplier tends to lose his power due to loss of negotiating edge which comes with holding of crucial resources (Cool & Henderson, 1998).

In the context of the research, the importer is threatened by the buying houses whereas the manufacturer is threatened by the cheaper sources of supply and both must make a decision to safeguard their businesses. A state of uncertainty is created for both the importer and the manufacturer because the comfortable zone of trust in the exchange partner and commitment to the relationship is threatened by the incongruity of mutual goals (commitment) and the lessening of reliability on each other (trust).

Retailer's insistence on reduction of price causes a rift in the exchange partners' relationship due to the pressure on importer to achieve price points. The importer transfers this pressure onto the manufacturing-exporter to achieve production within the price points. Due to the availability of alternative choices for sources of production, the importer has power over his manufacturing-exporter who is bound by his cost structure to manufacture within a limited range of price points.

The manufacturing-exporter competes in the global supplier market with China, which has cheaper and more cost-effective production, and Bangladesh, whose cost structures are low due to zero taxes based on its LDC status. The manufacturing-exporter also competes in the domestic supplier market, which has an abundance of small-scale unregistered and non-compliant units producing at lower costs than the manufacturing-exporter.

The inability of the manufacturing-exporter to meet importer's price points would result in the possibility of the importer breaking the relationship and moving production elsewhere. A price-evoked uncertainty state is created which reduces reliability in the exchange partner for both the importer and the manufacturing-exporter, while at the same time the exchange partner is seen by both parties as not honouring the commitment to the relationship. Thus, price pressures by the retailer have a negative effect on the quality of relationship of the exchange partners by reducing the amount of trust in, and commitment to, the relationship.

6.3.1.2 IMPORTER OPPORTUNISM

A double-barrel effect of price pressures may occur when, in a state of price-evoked uncertainty, either of the exchange partners engages in opportunistic

behaviour. Opportunistic behaviour by an exchange partner reduces trust in the partner because he has acted dishonestly and with intention of unilateral benefits as against the mutual benefits that relational exchange partners strive for. By acting in his own interest the exchange partner also signals to the partner his intention of not maintaining a long-term relationship. Therefore, opportunism has a negative effect on commitment to the relationship as well.

In the context of the research, the likelihood of importer opportunism is higher than exporter opportunism. This is because importer has the opportunity to look for other suppliers due to a large supply-base whereas the exporter is limited in his choice because of his cost structures and the demand for lower prices. The exporter, therefore, is left with limited choice and is forced to comply with importer's demands and behave in a manner that is not offensive or retaliatory. As a general practice, the large UK retailers are not buying directly from the manufacturers, which means that the manufacturers must reach their target customers through importers.

This condition makes importer relationships significant to the manufacturers. Thus, exporters who have a long-term view towards building relationships avoid indulging in opportunistic behaviour such as cutting corners or delivering quality that is inferior to what was promised. Exporter opportunism through a compromise on quality is also restricted because of the strict QC procedures that deter him from engaging in bastardising the product. Therefore, opportunities for exporter opportunism are limited.

The importer has the opportunity to get even lower price points by using unstructured mills as supply-bases since government checks on, and implementation of, compliance are weak in Pakistan and the GoP has allowed the unstructured cottage industry to thrive in order to increase exports from the country. It was related by exporters that importers indulged in opportunistic behaviour by bringing the retailer auditors to visit complaint firms in order to secure orders which they would later fulfil by getting goods manufactured from non-complaints firms, thereby reducing prices for themselves and their retail customers.

The compliant firms, who were given a very small portion of the order, felt cheated since they knew that their firms were used as platform to secure the orders that they did not get. The effect of such opportunistic behaviour by either the importer or the exporter would be negative on RQ by adversely affecting trust and commitment.

Opportunistic behaviour impacts interorganisational trust negatively because of its influence on the component of honesty and transparency. In general, under the game theory concept dyadic partners refrain from opportunistic behaviour because of its negative consequences on interorganisational relationships. It is interesting to note that inspite of making conscious efforts towards maintaining long-term relationships, the importers are quoted as indulging in self-seeking behaviour without regard for the dyadic partner or the harmful effect of their actions on the dyadic relationship. Though price fluctuations are a common determinant of supplier markets in this price-driven market structure, exporters quote that it is the

first time in their relationship history of 20-25 years when the importers have exhibited such behaviour.

6.4 CONCLUSION TO CHAPTER SIX

Chapter six discussed the advent of RM based on the analysis of interviews. The quality of a relationship was described as an overall assessment of the relationship between exchange partners comprising of trust and commitment. Trust is the result of satisfactory and positive past experiences that the partners have with each other where they acknowledge their mutual dependency and reliance on their exchange partner and realise that mutual cooperation and understanding will result in benefits for both the firms while commitment is apparent from exchange partners' desire for longevity of relationship with their partners, mutual strategic planning, investment of time and effort in the relationship, and the way they anticipate their switching costs of moving away from their trade partners.

It was seen that although strong interpersonal relationships existed between the dyadic partners, the perceived strong interorganisational relationship was challenged in the face of changing market structure and presence of PDCPs. Under such conditions, it is the personal and social bonds that keep the relationship from disintegrating. It is perceived that these interpersonal relationships are fostered and employed strategically in order to create a portal that allows for easy entry when market and economic conditions are favourable.

The next chapter, Chapter Seven, provides a discussion on the analysis of interviews and embeds the findings in existent literature.

7.0 DISCUSSION

7.1 INTRODUCTION – CHAPTER SEVEN

Chapters four, five, and six discussed in detail the analysis of interviews and outlined important findings that the investigation revealed. A model was built of interaction relationships between UK-Pakistan importers and exporters highlighting the salient features of the relationships with an emphasis on factors that dominated cross-border relationships in the context of this research.

The following sections relate the findings of the research to literature on networks and relational exchanges. Section 7.2 talks about the internationalisation process of importers and exporters and section 7.3 discusses the influence of PDCPs on interactional exchange. Section 7.4 reviews literature on country perceptions and their impact on the interaction model. Section 7.5 deals with the effects of country perceptions on relational exchanges with emphasis on adaptations and institutionalisation and section 7.6 gives the answers to the research questions.

It was observed that country perceptions had a profound impact on relationships by affecting the overall atmosphere surrounding relationships and perceptions of product quality by importers (Chapter 5: Social System). In this context, country perceptions relate to the product in question and are expressed as stereotyping of Pakistan as producer of middle-level quality (may be termed ‘business distance’. More on this later in the chapter). Hence, country perceptions are assumed to relate to the perception of the quality of product coming out of Pakistan. Though Pakistani products are accepted as good quality, they continue to be considered as mainstream, middle-market products.

Manufacturers want to move out of highly competitive mainstream market and enter high-quality niche segments. In order to do so, they have equipped their factories with state-of-the-art machinery and latest production methods, mostly in the textile industry. BP1 and BP2 have also started small-scale organic cotton farming and now manufacture organic bed-sheets. But all their efforts have met with resistance as retailers do not accept these at the prices these products demand. BUK1 find this treatment of BP1's products "...rather unfair..." and consider it unfortunate that stereotyping of Pakistani products keeps them from moving up the product quality chain while they accept that some of their products' quality is "... absolutely fantastic".

While manufacturers want to serve low-volume high-margin segments, retailers are happy to keep them at middle-market, mainstream segment because, according to the manufacturers, it serves their purpose of achieving high-volumes and high-minimums at their dictated prices. Since retailers demand the mainstream quality and the manufacturers are unable to sell their high-end products, they continue to supply to the middle market at the lower prices and therefore the country perceptions about Pakistan as producer of middle-level quality persist.

Country perceptions also translate into the perception of organisational culture and the related work ethics (Chapter 5: Social System), which play a mediating role between transactional and relational exchanges by shaping adaptations made by exchange partners and institutionalisation of norms that governed the relationships. Pakistani perception of delivery time and standardisation vary from those of the UK importers and adaptations are made to incorporate those differences in interaction relationships. These adaptations have come to be

institutionalised over time and are integrated in the relational exchanges between partners.

7.2 INTERNATIONALISATION

It was observed that a decision to enter a market for import or export was not based on the incremental stages model presented by Johanson and Wiedersheim-Paul (1975) which proposes that companies move gradually from low export activities to increasing involvement as they gain experiential knowledge of foreign markets. Neither did we see importers and exporters entering new markets through stages by first entering those markets that are considered psychically close and then gradually moving on to more culturally diverse markets (Johanson & Vahlne, 1977, 1990, 1992). Instead, it was seen that culture does not play a role in selection of markets in this globally open environment and decisions to import or export are based predominantly on price advantages for importers and increased sales for exporters rather than on psychic distance. In fact, most manufacturing units were initiated with a view to exporting, with no local sales.

Firms were seen to follow various patterns of internationalisation based on their state of readiness or decision to import/export. One situation was that of ex-manufacturers who closed down their factories in UK due to rising manufacturing costs and decided to stay in the same line of business by sourcing from global suppliers and supplying to their existing customers.

Other importers started business solely with the purpose of importing from global suppliers and supplying to the local retailers. When operations increased, these firms started supplying to other European markets as well. Both types of importers

did not select markets on the basis of psychic distance or cultural closeness. Rather, they selected suppliers on the basis of product price at a given quality. All importers in the sample stated that they entered Pakistan because of the competitive prices it offered. They talk about “huge investments” in acquiring knowledge about the markets, “having their fingers burnt” and “huge learning curves”, but all of their experiences happened after, and not prior to, the initiation of business. After experimenting with various suppliers, the importers settled with a select number who they felt “... shared (their) mentality...” and with whom they were able to align their objectives.

TABLE 7-1: INTERNATIONALISATION PATTERNS OF SAMPLE FIRMS

Internationalisation process	Importers		Exporters			
	Manufacture	Experimental small volume import: Various global suppliers	Manufacture	Manufacture	Manufacture	Manufacture
	Terminate manufacturing		Local market	Export directly to retailers	Export via agents	Export via agents
	Experimental small volume import: Various global suppliers		Export via agents Local Market	Export via agents		Export via importers
Large volume import: Select suppliers	Large volume import: Select suppliers	Export via importers Local Market	Export via importers	Export via importers	Export and begin supply to local market	

The exporters also exhibited various patterns of internationalisation. In the first instance, manufacturers that were producing for local markets decided to export in order to expand their operations and increase their customer base. Initially, they mostly started exporting through agents who performed the task of arranging transactions between buyers and sellers without taking possession of the goods, but when the importers approached the manufacturers in the early 80’s, the manufacturers started exporting to retailers through importers. Manufacturers also

supplied directly to retailers in export markets. Before the entry of departmental stores in leather apparel markets, the manufacturers supplied speciality stores either directly or through their agents. When departmental stores became major large customers, direct selling to retailers ceased and manufacturing exporters first used the services of agents, and then importers, to access the departmental stores.

There are firms that have started manufacturing operations purely for the purpose of exporting. These firms use the same channel of export as other firms. As an example, Pakistan does not have a market for leather jackets since most of its metropolitan cities are warm with only limited demand in the northern areas and Islamabad. Manufacturing units producing leather garments started operations solely for the purpose of exporting, with only one firm, LP1, having retail outlets in major cities of Pakistan.

Of late, and with the onset of PDCPs, firms that were solely export-oriented have started experimenting with local chains of retail stores, showing a reversion of internationalisation process from global to local. Thus, it goes to show that search for markets is no longer restricted to finding similar markets. Business is established where opportunities exist. This move away from traditional models is possible because of the technologies available to businesses and easy and open access to information, travel, and global markets.

The need exporters have for expanding business globally and importers have for finding cheaper sources of supply result in both seeking each other out and this was evident from the fact that relationship initiation started from either side of the

dyad in the pairs examined. IMP interaction model proposes this kind of active role of buyers and sellers (Håkansson, 1982).

Etemad (2004) proposed a framework of internationalisation of SMEs where he considered the interplay of attractive pull factors of the foreign market, push factors of the home market, firm, and individual, and the mediating forces of interactive push-pull factors as forces behind the decision to internationalise. For the study, competitive prices (for importers) and larger markets (for exporters) are the pull factors attracting importers and exporters towards each other's markets whereas exporters' production capacities and economies of scale and importers' large customer-base are the push factors (Etemad, 2004). Strong entrepreneurial skills and global vision of IE-dyads are also strong push factors.

Similarly, in the contingency approach O'Farrel and Wood (1994) suggested that market situation or opportunities and firm's strategic goals were the determinants of internationalisation rather than psychic distance or knowledge embeddedness. Reid (1981) proposed decision-maker's perceptions and expectations as possible determinants for export market selection. In sum, a contingency approach rather than the stages approach was followed by importers/exporters in their internationalisation process. The next section gives the advent and effects of PDCPs on interaction model.

7.3 PERCEIVED DYNAMIC COMPETITIVE PRICES

This section offers an explanation of the reasons why exporters perceived the low competitive export market prices as transient and speculated that these prices would shift upwards in the near future. The explanation lies in their view of the

Chinese economy as a dominant contributor to low market prices since its accession into the WTO. Exporters consider China to be the biggest threat and their direct competitor since China is able to offer most of their products in the same category at lower rates than the Pakistani manufacturers are able to achieve.

As was apparent in the analysis of Chapter 5, Pakistani manufacturers consider the prevailing low competitive prices of home textiles and leather garments to be transient and speculate a stabilisation upwards. This speculation is based on various factors, which the exporters foresee and which they perceive will shape the overall export market scenario in the two industries. The exporters perceive that there would be an interim period when manufacturing firms would face reduction in export orders because of the competitive advantage offered by China, followed by a period of stability when China prices would rise again and importers would return to Pakistan and export markets will stabilise. The paragraphs below show that China's low prices have indeed been a cause of concern for the global exporting community and economies have sought ways to counter the competitive threat.

China's rise into the export market and the competitively low prices of its products have been the subject of research studies and debates for over a decade now. A sizeable body of literature has appeared with studies on China's development through time since its liberalization in the eighties (c.f. Lall & Albaladejo, 2004; Fontagné et al., 2008; Schott, 2008). The debates have centred around the exceptional growth rate of the country and the factors inducing it. Various reasons for China's low prices have been cited. Among these are low labour wages with high labour productivity, industry-wise development network

clusters, government support and export subsidies, weak compliance and lack of stringent governance implementation, counterfeiting and piracy, increased FDI, and devalued currency (Navarro, 2006).

Speculations have been made and studies conducted to see if China's growth has impacted imports from other countries (Xu, 2007; Xing, 2011) including both developed countries' exports and developing countries' exports (Ravenhill, 2006; Xing, 2011). Ianchovichina and Walmsley (2005) found that China's increased exports after its accession of WTO negatively impacted exports of China's neighbouring developing countries, especially in the sector of textile and apparel. However, they found a positive impact of China's growth on Japan's exports and exports of newly industrialised economies of East Asia, especially due to China's imports of high-quality textile and processing materials.

Lederman et al. (2008) studied the impact of Chinese and Indian exports on trade specialisation in Latin America (LA) and found that LA's specialisation patterns correlated negatively with China's and positively with India's. They also concluded that among the factors of production, labour, both skilled and unskilled, was the one most negatively affected by India's and China's growth, whereas natural resources and scientific knowledge benefitted from the two countries' growth in the export markets. These are but a few of the studies that have been conducted to understand and deal with the phenomenon of China's dominance (c.f. Gaulier et al., 2006; Eichengreen et al., 2007; Jenkins et al., 2008; Fu et al., 2010; Giovannetti et al., 2011 to name a few).

Shafaeddin (2004) points out that when some economies go through their cycle of development from agriculture to industrialisation and then to services, other less-developed economies suffer a set-back, especially when their rate of growth does not keep pace with those of their global competitors. Numerous studies indicate the problems faced by exporters in developing countries who trade with the more developed nations when they have limited competitive advantage (Peng, 2001; Ghauri et al., 2003; Etemad, 2004).

Pakistan is one such economy where turbulent political environment and civic crises have hampered growth of its local and export industry. Although it enjoyed the status of a major textile exporter until the end of quota, it did not see the expected growth and increase in export volumes that should have accompanied unlimited access to international markets. Instead, the effects of market structure changes and competition due to cheaper sources have put Pakistani exporters under survival mode where they must wait for the wave of hyper-growth of China and India to stabilise so that they may once again resort to their previous volumes of exports.

This points towards the reactive nature of Pakistani businessmen, who design strategies to overcome an issue rather than foreseeing it and acting in advance to counter the threat. According to Hofstede's (2001) cultural index, Pakistan has a zero outlook towards the future. This is apparent from their reaction to the implementation of WTO and the strategies they designed to cater to change. In anticipation of increased markets once the WTO came into effect, the textile industry zealously increased capacity and new firms open up in the hope to enjoy anticipated profits.

There was lack of research to support other scenarios that may take place. For instance, comprehensive research was not conducted to study strategies of countries that produced similar products and were Pakistan's direct competitors in their key export markets. If such information was made available by GoP through research conducted by TDAP or commerce and industry associations, the manufacturers would have been better equipped to plan for increased competition. There was a lot of speculation based on industry knowledge and some research conducted by government organizations (c.f the Annual Review by S.P.D.C., 2004).

At the time of this research, manufacturers of home textiles and leather apparel use information gathered from various sources such as the news media, research conducted around the globe and, most important to them, their network of importers, suppliers, and other business stakeholders to observe trends in export markets. Based on the knowledge thus acquired, the exporters believe that China's prices of home textiles, especially in the sectors where they compete with Pakistan (namely made-up articles wholly or chiefly of textile materials) will soon see a rise in prices which will become comparable to what the Pakistan industry can offer. Similarly, leather apparel manufacturers expect the prices of leather garments out of China to rise to the level where Pakistan is once again competitive.

Exporters consider the waiting period before the upward shift of prices to be interim, a transient phase which is not likely to last given economic forces, consequences of restructuring of China, and the exchange rates. China's export structure is similar to Pakistan's for textiles and clothing, sports goods, leather

apparel, and toys. However, studies show that China's competitive advantage in these labour-intensive industries is set to stabilise as Chinese government is looking towards more capital-intensive production with more qualified labour that is demanding white-collar jobs with higher wages (Shafaeddin, 2004). Another factor contributing to expected stabilisation of global competition in light manufacturing industries such as textiles and leather apparel is the policy shift in focus of Chinese exports from the light, labour-intensive manufacturing towards the production of more sophisticated manufacturing processes and heavy industrial machinery.

China's progress through light, labour-intensive manufacturing processes to those of gradually increasing levels of sophistication (Rodrik, 2006) is currently under close observation. It is speculated that export market competition from China will shift from light and medium-engineering goods producing countries such as the developing countries, to developed countries that manufacture heavy machinery and industrial goods.

China's growth has not only affected Pakistan's economy but also major producers like the USA and European countries in various product areas including heavy engineering industries, footwear, textiles, toys, and leather apparel. Government help in the form of VAT on each stage of production of export goods and services, reduced energy rates, tariff and non-tariff barriers to imports, and currency devaluation etc., have kept prices of China's exports artificially low. Countries like the USA, and EU, have fought, and succeeded to an extent, to bring China's artificially lowered costs-of-production at par to ensure a level playing field and to gain access to Chinese consumer markets through removal of barriers

(Weisman, 2007). Additionally, economic growth spurred by investments of locals and FDIs in China and factors such as one-family-one-child policy have seen a rise in the standard of living of consumers which has resulted in a better-educated generation. This one-child generation is highly skilled and demands equivalent jobs, raising labour wages. Recently, the revaluation of Yuan has started and VAT rebates have been lowered to discourage export of certain goods.

These reasons have resulted in a slightly upward shift in prices, as speculated by the importers and exporters. India, too, has become more expensive than Pakistan in exports with its currency becoming stronger against Pakistan's (1INR = 1.82 PKR on 01/01/2010, OANDA, 2010). Consequently, as prices of Chinese goods will slowly rise, developing countries will see a rise in their exports due to their prices becoming competitive again. The timing of this research helped capture a transient phase where importers are very happy with their exchange partners and express a desire for continuity while exporters see a depression in the amount of business with their exchange partners due to PDCPs eroding their profits, and are genuinely concerned about the continuity of exchange relationships.

Thus, exporters make an informed claim when they assert that they are going through an interim period of waiting and need to find ways to survive and manage till such time that they are able to enjoy their previous status. Importers share the view of exporters in that they believe that China export prices will stabilize and some business will return to Pakistan. However, they are not as optimistic as Pakistani exporters who, according to importers, are “...*eternally optimistic*”. Importers say that there will be some restructuring of markets before they stabilize.

Most importers are in close contact with manufactures in other countries such as China and India and as such act as an important source of information for the exporters. They inform the exporters of new developments that are happening in other export markets, especially if they affect their Pakistani exporting-partners. Importers have played their fair share in convincing Pakistani exporters that the phase is transient in nature and will end with rising export market prices. Their belief in the transient phase of PDCPs is apparent in the way they maintain friendships and social interactions with their trading counterparts in Pakistan so that they are able to return with renewed business once the global export prices make Pakistan a cheaper source of supply once again.

Importers of this study validate price as a dominant factor in the selection of source country by admitting they came to Pakistan looking for cheaper sources of supply. Studies have found price of products to be a major factor in the decision to purchase from developing countries. For example, Ghymn (1983) conducted a study of one hundred and ninety-eight import managers in the USA and found that price-related variables were more important when deciding to import from developing countries whereas product-related variables held greater importance in decision to import from developed nations.

Kirpalani and Macintosh (1980) also showed a positive relationship between competitive price and export performance in technology-oriented small firms while Cameron and Shipley (1985) found price, quality, and reliable delivery to be the most important factors for industrial source selection for specific rebuys. In their analysis of success factors in international product entry, Cavusgil and Kirpalani (1993) implied that firms with fewer resources would rely on price

instruments for effectiveness in export markets. On the other hand, Leonidou (1988) examined purchasing behaviour of twenty-one British importers for consumer products from Cyprus and found that import-decision was based on a mix of price and non-price related considerations with 'good value for money' as the most important criterion for selecting COO.

Some studies found non-significant relationships between price competitiveness and export marketing performance (Cavusgil & Zou, 1994; Chrysochoidis & Theoharakis, 2004). Other research emphasised the role of economic performance in decisions on relationship continuity. For example, Bello and Gilliland (1997) identified a combination of economic, sales, growth, and profit goal accomplishment as indicators of economic performance where sales and profit etc. would be attributed to price and quantity, or volumes, sold.

In summary, competitive price is seen to play a significant role in the decision to select sourcing-suppliers for low-technology products. Importers are governed by prices and will go to suppliers that offer the lowest price at a comparable quality level. Though it is not surprising to see volatility of prices in the markets for light engineering goods such as home textiles, or labour-intensive leather apparel industry, what makes them transient is the perception of exporters and importers of their instability and eventual long-term stabilisation, and the strategic planning undertaken to combat their effects.

By the time of resubmission of the thesis, we see that importers and exporters were not off the mark in their evaluation of the transient phase of low export prices. China's move towards more sophisticated manufacturing and increasing

education and wage rates have started to show their effects and we see a return of orders for leather apparel to Pakistan. The cost of leather apparel production has gone up in China and Pakistan is considered as one of the cheapest supplier of the product globally.

Of interest to this research, which is based on the study of relationships between importers and exporters, is what effect the advent of low export prices have on the relationships and how relationships are maintained during the perceived transient phase. In this research, we see that where relationships are involved, importers try and maintain these through interpersonal interactions to the effect that relationships are not severed and there is a way back for them once the prices are again favourable for trade.

Exporters too, must continue with the relationships since they perceive the low prices to be an interim phase and believe that importers will return. Exporters are limited by choice since the majority of them have their manufacturing operations geared towards exports. Around 60 to 100% of sales of manufacturers in the sample come from exports. This is why exporters now looking inwards towards local markets to while they wait for the expected return of export business.

7.3.1 Effects of PDCPs on Interaction Process

The perceived expectancy of transient nature of low export prices and their intermediary effects have not been studied in international business-to-business or importer-exporter research though it is a significant contributor to survival or phasing out of export-businesses. For firms that depend largely on exports, continuity of export exchanges is crucial to their existence.

PDCPs have a negative effect on relationships through increasing perceived uncertainty about business continuance, and on overall exchange atmosphere through increasing conflict of interests between exchange parties. PDCPs cause an increase in perceived environmental uncertainty which is the inability of exporters to predict changes in the environment, in this case due to the dynamic nature of PDCPs (Andersen, 2006). According to Dimitratos et al. (2004) extent of perceived environmental uncertainty is based on managers' perceptions of environment-analysis. PDCPs also cause uncertainty about exchange-partner's actions because of the inability to predict them accurately (Leonidou et al., 2006) which negatively impacts the quality of relationship.

7.3.1.1 PDCPs EFFECTS FROM THE RELATIONSHIP MARKETING PERSPECTIVE

In order to observe the effects of PDCPs on I-E relationships we need to observe their impact on the process of building of loyalty among the partners and the desire for co-production and value-creation through mutual understandings and activities. Chapter 6 outlined the process where trust, commitment, and the level of satisfaction between the exchange parties led to the desire to continue a relationship, and also defined the role of both interorganisational and interpersonal relationships in the strengthening of bonds between partners.

The effect of PDCPs in the context of RM is explained through the advent of uncertainty, which is caused by constant demands on price reductions by retailers and, therefore by importers, on manufacturing-exporters. Manufacturing-exporters find it hard to meet those demands and must work on break-even, or sometimes on marginal costing, to honour their commitment for the continuity of relationship

with importers. Manufacturing-exporters have noticed a fall in their export orders and are uncertain of the continuity of relationship with their importers.

Perceived uncertainty is the extent of inability of an organisation to accurately foresee the future of its relationship with its exchange partner (Pfeffer & Salancik, 1978). Increased market competition gives rise to uncertainty because of factors such as volatile prices and dynamic technological changes resulting in product obsolescence (Anderson et al., 1987; Teece, 1996). Environmental uncertainty increases the risk of planning future activities involving importer-exporter dyad due to *dynamism* of external factors that need to be considered for decision-making (Achrol & Stern, 1998). Anderson et al. (1987) proposed reduction in investments in highly volatile climates because of increase in uncertainty and greater perceived risk.

Thus we can say that advent of PDCPs increases perception of uncertainty about exchange partner's future actions and the risk of partnership dissolution. In their meta-analysis of trust in marketing channel relationships, Geyskens et al. (1998) show a negative effect of uncertainty on trust. An increase in uncertainty would reduce the amount of trust in exchange partner, thereby diminishing the quality of relationship. Thus we can infer that advent of PDCPs would have a negative effect on the quality of relationship through reducing trust in exchange partner.

With lessening of trust there is a tendency for opportunistic behaviour exhibited on the part of either importers or exporters. Long-term relational exchanges are marked by the development of relational norms of conduct built on a history of

relationship (Lusch & Brown, 1996) that result in perceptions about commitment of exchange partner to the relationship (Anderson & Weitz, 1992).

Exchange parties are committed to each other on the perception of continuity of relationship and the expectation of long-term benefits that are perceived to be higher than short-term gains (Morgan & Hunt, 1994). These norms become ineffective when perceptions about other party's commitment are doubtful (Hill, et al., 2009). In such a situation short-term gains may become more attractive when long-term benefits are not in sight (Brown, et al., 2000). Thus we see a tendency of importer's opportunistic behaviour in achieving short-term gains by exploiting government's lack of regulation and using exchange partner's compliant facilities to get sales from the unregistered, non-compliant sector. Hill et al. (2009) proved a significant positive relationship between subtle and deceitful unethical activity and psychological contract violation which reduces trust by negatively impacting buyer's dependability and benevolence (predicted through length of relationship).

Exporter opportunism is also evident in that importers are weary of promises made by manufacturing-exporters (other than their exchange-partners) to deliver certain quantities at importers' PDPCP points and then supplying inferior quality to that which was agreed upon.

Commitment refers to a firm's intention and degree of effort in building and maintaining a long-term relationship with the exchange partner (Morgan & Hunt, 1994; Gilliland & Bello, 2002; Stanko, Bonner, & Calantone, 2007). With uncertainty about future with exchange-partner, investment in the relationship is

seen as uneconomical and there is a lessening of previously strong commitments (Gulati, 1995; Eriksson & Sharma, 2003). Similarly, overall satisfaction with exchange relationship, which is the positive-affective state resulting from all aspects of a relationship (Anderson & Narus, 1984), decreases as future intentions are made unclear. Thus, PDCPs affect all aspects of RM negatively and may be very destructive to the relationship. It is proposed that partners should understand the transient nature of PDCPs and disillusion about possible dissolution should not be allowed to destroy the strength of the relationship that took years to build and that can actually be used to foster faith in future continuation.

7.3.1.2 PDCPs EFFECTS FROM THE IMP PERSPECTIVE: ATMOSPHERE

PDCPs tend to reduce cooperation and increase conflict in an exchange relationship. Cooperation is defined by Anderson and Narus (1990, p.45) as ‘. . . similar or complementary coordinated action taken by firms in interdependent relationships to achieve mutual outcomes or singular outcomes with expected reciprocation over time’. Cooperative atmosphere is marked by tangible and/or intangible idiosyncratic investments in adaptations to achieve goal congruence and mutual benefits (Anderson & Weitz, 1992). These investments include the time and effort spent on building and understanding relationships and intangible adaptations made on their basis (Cannon & Perreault, 1999).

Pursuit of individual goals instead of mutual outcomes is perceived to be a move away from relationship, even though short-term, and would appear to be an uncooperative act under the definition given above (Brown, et al., 2000). Non-

cooperation will increase conflict, or tension due to real or perceived differences, in the relationship (Raven & Kruglanski, 1970).

Conflict is defined as ‘the perception on the part of a channel member that its goal attainment is being impeded by another, with stress or tension the result’ (Gaski, 1984, p. 11). Anderson and Narus (1990) showed that conflict is negatively related to trust and positive beneficial outcomes while Skinner, Gassenheimer, and Kelley (1992) relate it negatively to satisfaction and Brown *et al.* (1991) to performance. Thus reduction in cooperation and increase in conflict due to PDCPs results in reduction of trust and satisfaction thereby reducing the quality of relationship. Skarmeas (2006) showed a negative relationship between opportunism and conflict which means that opportunistic behaviour will cause an increase in conflict between exchange parties. We can expect the relationship to work the other way and assume that an increase in conflict will induce either of the exchange partners to behave opportunistically under a state of tension, stress, frustration, anger, or resentment which result due to conflict in the channel. Therefore, we can infer that the likelihood of opportunism increases with increase in conflict between importer-exporter dyads.

Ha et al. (2004) found that importers’ dependence is positively related to their cooperation with the exporters and importers’ cooperation is positively related to their satisfaction with exporters. Matanda and Freeman (2009) studied exporters of sub-Saharan region exporting fresh produce to UK, UAE, Netherlands, Japan, and Australia and found that buyers tend towards use of coercive power under conditions of high environmental volatility and high levels of competition. They also found a negative association between market turbulence and commitment.

In Matanda and Freeman's study (2009) market turbulence stands for the dynamic nature of developed countries' markets where technological advancements happen faster than in developing countries, and environmental volatility means rapid changes in supply and demand, together with high levels of competition, in the developed markets. This is somewhat similar to the concept of PDCPs prices as they continue to spiral downwards, and uncertainty about changing prices resulting in reduced cooperation, increased power of importers, and reduction in trust and commitment thus affecting the overall perceptions of relationship negatively.

7.3.2 Dissolution or Survival?

Literature on dissolution of exchange relationships gives conflict, changing priorities, environmental alterations, evolving partnership needs, and strategic realignments as reasons for relationship unrest (Good & Evans, 2001). Good and Evans describe relational unrest as a situation of relational instability where certain conditions result in buyers and/or sellers perceiving a reduction in the value of 'anticipated or existing benefits', and is the outcome of 'failure of one or both parties in a business-to-business relationship to comply with either market or nonmarket governance systems' (2001, p. 550). For example, reduction in volume of otherwise stable purchases by importers or demands for illogical price reductions by retailers would result in relational unrest that causes friction in exchange relationships and continuity of such conditions may result in dissolution.

Mitigating factors of relationship-ending identified by Tahtinen and Valaand (2006) include lost relational investments including switching costs, dissolution

process costs, possible sanctions for future business, network limitations, and set-up costs of new relationships. Tahtinen and Valaand suggest the importance of these factors and the emphasis partners, who want to remain in the business, should place on them in order to stop the process of dissolution.

Though there is significant research on the process of dissolution, scant research exists on survival strategies for relationships facing termination. Tahtinen and Valaand's research (2006) is a step towards that direction. Strategies such as strengthening and stressing relational norms (Tahtinen & Valaand, 2006), reinforcing trust-building, emphasising increased switching costs or increasing perception of switching costs, and bridging the perceptual gap or 'distance' between exchange-partners may be adopted from literature to propose alternatives for action during the interim period marked by PDCPs.

As an example, realisation by exporters of the transient nature of PDCPs would decrease uncertainty and exporters could work towards alternative short-term strategies for the interim period. Such an understanding is apparent in that exporters have reduced their margins to the extent that they recover only their fixed costs or a portion thereof so that they would keep their customers from leaving permanently. Some manufacturers are producing cheaper qualities for Africa and Central Asia in the short-term. LP1 have reduced their fixed costs by shifting to contract labour since leather apparel manufacturing is seasonal. Manufacturers are looking to improve efficiencies in production. For example, BP1 is investing to reduce fixed costs of production:

'we are trying to build a very big infrastructure, combined cycle, power plants, everything so that our costs, we have reduced our costs. We are trying to do the most efficient things but we get stuck because our labour costs are highest in the country because we are compliant. We are paying overtime but 90% of the textile industry is not paying overtime. So you know it is a losing battle...'

Others are repositioning their products or planning to reduce dependence on importers:

'because we think this price war is just not worth it; you are wasting too much energy. But our fixed costs are there so it's going to take us 10 years to shift and get out. That's all. We can't get out overnight. The cost would be too high. We are shifting things to retail, and to creativity and fashion. We might build a brand (internationally) in home textiles if we can, if others close down; if there is a vacuum but I don't think so.'

(BP2)

In the meanwhile, none of the relationships have ceased and manufacturing-exporters continue to supply reduced prices, at times below cost, to their dyadic-importers.

Suggested continuation and survival strategies from literature on dissolution of relationships is to make the perceptions of their relationships appear important to importers by increasing the perceptions of switching costs through perceptions of greater investments in relationship (Tahtinen & Valaand, 2006), networking (Watson, 2007), increasing perception of trust in relationship (Anderson & Weitz,

1989), improving perception of economic performance (Morgan & Hunt, 1994), and reducing perceived distance (Prime, et al., 2009).

Pressey and Salassie (2007) found better price from competitors to be the most dominant factor for UK importers' ending relationships with their suppliers. In this research, importers' attitudes show that they have every intention of continuing business with their exchange-partners in Pakistan. They show what Havila and Wilkinson (2002) call 'relationship energy' in their attitude towards their relationships with exchange-partners.

In their study of the 'relationship aftermath' (what happens after the relationship is ended) Havila and Wilkinson (2002) considered case studies where relationships ended due to external circumstances rather than dissatisfaction and likened relationship energy to the concept of 'conservation of matter' in physics where matter cannot be destroyed but is transferred or transformed to other forms of energy. Social bonds are considered to be such energy in a relationship which continue on, unless badly severed on purpose, even after exchange has ended. Thus maintaining contact and good personal relationships pave way for future business relationships which are dependent on external circumstances and changes in environmental factors.

To sum up, PDCPs define the environment of exchange-relationship as volatile and the market as turbulent. As part of the macro-environment PDCPs affect the interaction process as a whole and have specific effects on the atmosphere and the overall quality of relationship. They are seen as transient and, therefore, their effects should not be treated as permanent. It is suggested that where relationships

are deemed important to exchange partners they should formulate strategies to remain in contact and carry forward the 'relationship energy' through the interim period so that exchanges may be resumed when market conditions permit.

7.4 COUNTRY PERCEPTIONS AND THEIR IMPACT ON IMPORTER-EXPORTER INTERACTION

Perceptions about a country of trade have a profound impact on the way interactions take place between exchange-dyads. Country perceptions result in perceptions of 'distance' between dyads and this concept has been used extensively in cross-border B2B research (Shenkar, 2001). For example, Johanson and Vahlne (1977, p. 24) defined 'psychic distance' as "the sum of factors preventing the flow of information from and to the market".

The terms '*perceptions*' and '*psychic*' mean that differences are more a state of mind, and therefore subject to individual interpretations. Perceptions of differences, then, would vary from individual to individual and firm to firm (Evans & Mavondo, 2000). There could be many differences in perceptions regarding various countries and people but in an importer-exporter or cross-border business context, perceptions of factors that have an impact on the performance of exchange are of relevance (Yamin & Sinkovics, 2006). According to Prime et al. "distance has little meaning until partners come into contact with each other and such interface produces 'friction' or 'drag' for those partners' operations" (2009, p. 185).

In this research, since only those perceptions were highlighted by respondents that affected their exchange relationships, an appropriate definition for country

perceptions in this research could be taken in the context of ‘business distance’ to mean “differences in perceptions of managerial practices and technological advancements, values, mind-sets, and norms” as adapted from Lou, Shenkar, & Nyaw (2001, p. 48). Thus product quality perceptions become an outcome of the perception importers hold about the level of production competence within the country.

The IMP literature shows the importance of culture in business relationship formation (Ford, 1984; Törnroos, 1991). Ahmed et al. (1991) identified communication, shared norms, cooperation, and reputation as factors resulting in long-term relationships. Prime et al. (2009) used the grounded theory approach to prove that these cultural factors did indeed contribute to creating distance between exchange partners. Business ethics is one such factor and is a component of cultural values (Usunier & Lee, 2005) which comprise of accepted values, norms, and beliefs and the patterns of behaviour of a society. The greater the perceived differences are regarding culture the greater would be distance between two parties (Sousa & Bradley, 2006). For example, respondents mention differences in ‘*ethics of time*’ where the concept of time is ‘*completely different from what the West has come to accept as standard after the World War, after industrialisation*’.

Shenkar (2001) proposes distance to be a matter of strategic decision, i.e. it is dependent on how close to their system do the firms want the other firm’s system to be, or how much control do they want to have on the other firm. Shenkar suggests that a strong corporate culture would make a subsidiary similar to the parent company and would, therefore, lower transaction costs. It is difficult to obtain such control in an importer-exporter exchange relationship but there is

strong evidence in literature that formation and institutionalisation of relational bonds results in adaptations to adjust to the exchange-partner's needs (Rokkan, et al., 2003). Matanda and Freeman (2009) found that suppliers seek closer bonds with their exchange-partners in situations of environment unpredictability and high levels of competition.

In conclusion, this section sought to show the relevance of country perceptions and their effects on interaction process in literature. The next section embeds the effects of country perceptions on the process of adaptations and institutionalisation.

7.5 ADAPTATIONS AND INSTITUTIONALISATION

Perceptions of importers and exporters about their trading partners are based on their past experiences in situations where business between the two has existed for many years. It is perceived by importers that the mode of conducting business in Pakistan is completely different from that of UK. Quality of the relationship in this instance depends more on transparency and honesty than on trust, commitment, and satisfaction as proposed by Ulaga and Eggert (2006).

Interdependence brings vulnerability into business and both parties are susceptible to mistakes made by any one of the organizations. This is because operations that are the domain of one party are not under the control of the other. This dependency therefore increases risk in business and it is essential for both parties to the trade to introduce control mechanisms to safeguard their interests. *Control mechanisms* are structural arrangements that provide some control over partners' behaviour (Li, et al., 2009) and that help to reduce opportunism (Brown, et al.,

2000), protect specific investments (Jap & Ganesan, 2000), increase channel members' satisfaction and performance, and improve relationship quality (Jap & Ganesan, 2000; Poppo & Zenger, 2002; Williamson, 1993).

Prior research on buyer-seller relationships suggests various forms of control mechanisms such as the use of discrete and relational contracts (Lusch & Brown, 1996), relational norms (Heide, 1994; Heide & John, 1992), ownership structure, power execution (Weitz & Jap, 1995), and specific investments in the business (Anderson & Weitz, 1992). Lusch and Brown (1996) found that when mutual dependency is high between the wholesale-distributor and its major supplier then there is more reliance on normative contracts.

Control mechanisms on the trading partner's operations could be informal and social such as mutual decision-making, joint problem-solving, open communication and frequent and free exchange of information, and trustworthiness, or they could be formal such as contracts, written guidelines of conduct in the relationship, and stringent by-laws (Jap & Ganesan, 2000; Fryxell, *et al.*, 2002).

One important step most of the importers take in order to meet the needs of their retail clients and make sure the exporting manufacturers deliver the required quality is strict control on the QC side of the manufacturing process. This kind of monitoring is a unilateral control mechanism (Ryu, *et al.*, 2007) that provides a partner to the relationship with information about the performance of its trading partner. Monitoring performance also helps in the detection and prevention of opportunistic tendencies (Heide, 1994).

The exporters too need to safeguard their existence which is dependent on the provision of orders by the importers and this is possible through constant check on their performance to make sure they produce the quality required and expected of them. They have adapted their machines and processes to suit European demand on the request of their exchange-partners. These investments are not relationship-specific (Rokkan, et al., 2003) since once installed, these machines and processes can be used for all buyers but the fact that the investments and adaptations were made on the partner's request add value to the relationship.

Importers who have long term relationships with their trading partners in Pakistan specifically mention the consistency in quality (Ghymn & Jaffe, 2003) and adherence to compliance and governance (Wathne & Heide, 2004) as the reason why they continue to do business with their chosen manufacturing firms from among the vast collection of producers present in the Pakistani industries. Thus, although the importers are weary of the not-so-ethical dealings of the Pakistani manufacturing suppliers and exporters, they find that they have found in their trading partners the sort of mentality that western economies strive for.

The social control mechanisms have evolved over time (Liu, et al., 2010) and constitute mutual decision-making of the trading partners, especially in textiles, and acts of reciprocity on a personal level (Pervan, et al., 2009). Long-term partners-in-business in strong relationships let minor faults slip and mutually discuss major problems to seek solutions (Anderson & Narus, 1990; Dimitratos et al. 2004). A higher level of relationship quality is the outcome of the long relationship built on mutual understanding. Yet it is seen that formal controls

through strict ownership of QC remain in the hands of importers even with very long personal relationships.

Ryu et al. (2007) examined the manufacturers' use of two control mechanisms, namely the unilateral and bilateral controls, and suggested that long-term orientation may have a contextual effect on the relationship between control mechanisms where the two types of controls can be used as compliments by a manufacturer who has a long-term orientation towards his relationship with a supplier. The authors took monitoring as a unilateral control mechanism and flexibility as a bilateral control mechanism. Thus both monitoring and flexibility may be used together with a view towards the longevity of relationship.

The findings of this research suggest that with interdependence, importers use the unilateral control of monitoring and exporters show adaptability in their terms and processes in order to suit the demands of the importers. Importers are spokespersons for the retailers who they represent in their purchasing from Pakistan and providing a consistent quality of goods is essential for their continued business with retailers. They can only achieve this by controlling the quality aspect of the manufacturing process since they do not manufacture the goods themselves.

In most cases of textile and leather apparel there is a 100% inspection for quality. The exporters insure their continued business by bringing adaptability to the table and adjusting to the demands of the importers to an extent while safeguarding their interest and minimising financial risks through formal control such as the

opening of the letter of credit and the presence of sealed samples to confirm the quality and specifications agreed upon in the contract.

Norms are defined as expectations of a society (Gouldner, 1960), or an industry (Macaulay, 1963) or individual firms, or groups of individuals (Bettenhausen & Murnighan, 1985) that guide what is acceptable in terms of values, beliefs, attitudes, and behaviour. One specific type of relational norm that is evident in this study is the long-term orientation of trading partners in instances where partners have invested sufficient effort in the relationship to warrant a better understanding and trust that the partner will not knowingly harm them in any way. However, exporters perceptions of importers' long-term orientation has been altered by the presence of PDCPs.

Social exchange theorists posit that trust is more likely to grow between exchange partners at a time when there is an absence of explicit contracts or written obligations. Molm et al. (2000) carried out experimental tests to check this propositional relationship between trust and reciprocal or structural exchange and found that trust and affective commitment are stronger in incidences where structural exchange is lacking and reciprocity builds stronger trust between exchange partners than if there were formal structures present to direct trade.

Molm et al. (2000) also generalised a reduction of trust in instances where structural assurances such as laws and contracts were present. Thus they put forward the theory that trust was higher in instances where there was more dependability on personal contacts due to lack of power structures which meant

that exchange partners had to rely more on the integrity of the partners and this presented an opportunity to build trust through personal dealings.

On the other hand, structural exchanges did not allow for trust to build up as there was no incentive to test the other party's integrity which remained obscure since every party to the exchange was bound by strict structures that demanded conformity. Rao et al. (2005) found a refutation of Molm et al.'s (2000) generalisation in international trade, especially with countries that had government structures that were less facilitative, such as China and Thailand.

Pakistan, like many newly developing countries in transition, has a somewhat less-facilitative government where application of laws to business, political, and judicial settings is not strict and people find ways around them in order to achieve personal benefits. This results in higher levels of corruption and the resulting risk in business is also heightened by the unstable political and economic situation of the country.

There is loose implementation of copyright laws and weak application of compliance and corporate governance in Pakistani businesses. It is therefore safe to say that Rao et al.'s findings that individuals in countries with less facilitative governments were less trusting of others is applicable to the situation of trade with Pakistan. Rao et al. found that trust in business is highly correlated with levels of corruption and judicial efficiency where trust is high with low level of corruption and high judicial efficiency of a government.

Taken inversely, trust is low with high levels of corruption and low judicial efficiency of a country. In spite of the low level of trust, businesses must continue,

as in the case of Pakistan and the UK, due to economic reasons or resource dependence. Rao, et al., (2005) suggest that reciprocal personal relationships help negate some of the negative effects of untrustworthiness but they warn that the affect is only to a moderate extent. In other words, reciprocal exchange does not fully mitigate the negative effects of government's lack of facilitative structures on trust.

UK and Pakistani trade partners have found that in instances where trust is necessary due to sharing of resources and processes, it is important to build control mechanisms (Bello & Gilliland, 1997; Liu *et al.* 2010) that would safeguard their interests in situations of interdependence (Rodríguez & Wilson, 2002).

However, the actions of government impacts the relationships as well. For example, non-facilitative governments tend to moderate the effect of personal relationships in relational exchange on trust and it is necessary to build mechanisms that would safeguard the interests of parties to the trade in the absence of trust. A facilitative government is one that is supportive of organisations and provides and enforces a structure of laws and regulations that supports exchange (Pearce, 2001) whereas less-facilitative governments are less supportive, unreliable, and weak (Rao, et al., 2005).

Due to the effects of PDCPs, trust in relational exchanges between the UK importers and Pakistani exporters is moderated by less-facilitative government where UK importers lack trust in their Pakistani trading partners and Pakistani exporters lack trust in their UK trading partners. Rao *et al.* (2005) found proof that

the less facilitative the government the lower manager's trust in their most important business associates.

7.6 CONCLUSION TO CHAPTER SEVEN

Chapter seven provided an explanation of the findings through literature on business relationships. The research showed that in the context of UK-Pakistan importer-exporter dyads country perceptions, in the form of 'business distance' played a significant role in shaping the type and quality of relationships formed.

Country perceptions, in the context of this research, included perceptions about the quality of products produced and their stereotyping at middle-of-the-road. To this end, dyadic manufacturing-partners were considered exceptions and "*above Pakistani standards*". In spite of that, their products were not accepted at high-end markets because retailers preferred to acquire high-volume high-minimum quantities from them. Firms were able to produce high-end quality at lower costs but these were not accepted by retailers which forced Pakistani manufacturers to supply bulk mainstream quality products. Thus, even though firms had the capability, the country perceptions persisted as producer of mainstream, mid-market producer of home textiles and leather apparel.

Though social structures of the two countries were perceived to be different, they did not impact interpersonal relationship formation as both dyadic partners understood and respected the differences and both exhibited cultural sensitivity. Business culture, as manifested in differences in business ethics, played a more decisive role in interorganisational relationship building. Notable differences were the perception of time and quality standards.

The chapter also established PDCPs as a major cause of conflict and disillusion in the relationship. Literature from the eighties suggested price to be a dominant reason for imports from developing countries. Then there was a change in findings during the nineties when product quality became a predominant reason for selection of export markets. This research again finds price to be the reason why importers shifted to Pakistan as their supply-source. Price has continued to play a significant role in UK importers' selection of supply-countries and this is evident in their shifts in supply-markets with exchange rate fluctuations.

Chapter eight gives the conclusion of the research and lays out the theoretical and managerial implications of the findings. It then provides the limitations of the investigation and provides some further avenues for research.

8.0 FINAL CHAPTER

8.1 INTRODUCTION – CHAPTER EIGHT

Chapter seven provided an explanation of the model through literature review and embedded the findings of the research in prior studies. This project was treated as an exploratory study since no research existed on understanding of trade between the chosen countries, i.e. Pakistan and UK. A qualitative, interpretive method using in-depth interviews of dyadic pairs helped build a model of relationships for the nations. This chapter lays out the answers to the research questions that were derived from the objectives of this research, then it provides theoretical contributions and their managerial implications for importer-exporter dyads. Some limitations of the research are laid out at the end of the chapter and possible venues for further investigations are suggested.

8.2 THEORETICAL CONTRIBUTIONS

This research is the first of its kind on relationships between Pakistani exporters and UK importers. Through study of secondary data from credible sources (ITC and ITSY), the thesis establishes that the dyadic relationship under study is important for both countries and worthy of developing an understanding. The industries chosen for the study, namely home textiles and leather apparel, have also been carefully selected to represent the highest volume of trade between the two countries.

The research makes a number of significant contributions to the literature on dyadic I-E relationships. Its most significant contribution is that by using

qualitative interpretive method of data-collection and analysis it has acquired evidence, grounded in the context and setting of the research, of first-hand information about the perceptions of importers and exporters regarding their relational exchanges. Information that is thus acquired would not have been possible through use of structured questionnaires. Respondents were free to talk about topics they thought were important in their relationships and a number of issues regarding non-assistance of government, exporter-opportunism and importer-opportunism, cultural differences, persistent quality and delivery issues, historical backgrounds, and the perceived dynamic competitive price dilemma would not have come to light in such detail. Specific significant contributions made through this research are presented below.

8.2.1 The Research Questions

The research is a comprehensive evaluation of the process of relationship formation and identifies key aspects that are relevant for dyads in the partnership. In order to highlight the findings of the research, the first step is to answer the research questions that were set forward at the beginning.

The objectives of the research were to understand the perceptions of importers and exporters about the relationships with their trade partners and to study the consequences of those perceptions on their behaviour and their trade relationships. These objectives were broken down into six questions that the research attempted to answer.

In the following paragraphs, information gathered under each individual question is laid out to outline the findings of the research.

8.2.1.1 BUSINESS INITIATION AND PROGRESS

The first question was set to examine the process of business initiation from its start to gain an understanding of the involvement of participants from the very start. The question was worded as follows:

1. How did interactions/relationships initialise between the buyers and sellers, and how did business relations develop over time?

Both partners to the trade were seen as active participants in search of business relationships with the other partner's country. This is in accordance with the suggested initiation process of IMP Interaction Model (Chapter 4). The pull factors that triggered business initiation (Etemad, 2004) were competitive export prices in case of importers and access to larger international markets in the case of exporters. Business was seen to initiate from either the importer or the exporter depending on access and timing.

Observed modes of first contact were either through fairs (for example the *Heimtextil* fair in Germany), referrals of friends or other business partners such as agents, or direct contact by obtaining information from government data sources such as The Chamber of Commerce lists of importers and exporters (Chapter 4).

After the initial contact, business relationship development involved a trial period where importers sampled the firms through placement of small orders to get an estimate of product and firm compatibility with one's own organisation and culture. Relationships progressed incrementally in cases where synergies were doubtful, but accelerated when there was a match between the "...*mentality*" of the two organisations. Spearheads for relationship development were attainment

of common objectives of acquiring a sizeable share of the market and increasing sales to retailers. This issue takes us to the second question of the research project.

8.2.1.2 PARTNER SELECTION

The second question posed by the research was based on the selection of business partners from among those that were sampled at the early stage of relationship formation. Relationship initiation did not guarantee continuation of relationships and only those relationships were carried forward that were considered to be as close a match with the company's own objectives and culture as possible.

Question 2, as stated at the beginning of the research was:

2. How do firms in the dyad decide to form a business relationship with one organization over another? In other words, how do firms make a choice from among the various available organizations?

In order to answer this question the reasons behind termination of relationships with businesses other than the focal dyads were examined. All importers in the sample mentioned that after the initiation of business with a new exporter, they would go through a period of experimentation with low volume orders in order to see the production capacity and capability of the manufacturing exporter. It was on the basis of this that they selected partners with whom they intended to continue business relationships.

A lot of factors were involved in the selection of relationship partners. These ranged from production processes and product quality to flexibility of dyadic partners in accepting each other's terms of trade. The obvious reasons cited by importers for termination of relationships that "*didn't work out*" were inconsistent

product quality, long turn-around times and persistent delays in delivery, and mismatch in companies' objectives and strategic plans (Chapter 5). LUK2 mentioned "*Quality of jackets, history of firms, reputation, source of supply, capacities, and facilities*" as important factors they look at when engaging a firm for manufacturing.

"Attitude" of manufacturing exporters was cited as another reason for termination of business relationships at the initial stage of relationship formation. By attitude, the importers meant a desire to make the relationship work, which was exhibited by showing adaptability in manufacturing processes towards the needs of the importer.

Another term used in this context was flexibility, which had similar meaning to adaptability but also included agreement on retailer-prescribed price points in the importers' context. For exporters, flexibility and adaptability meant showing empathy towards the inherent problems in Pakistan that result in inevitable delays and that are usually not in the manufacturing exporter's control. Flexibility also meant price negotiation capability of their import partners (Chapter 5).

Attitude was cited as one reason by BUK2 and TUK1 for not working with Indian manufacturers. They considered Indian manufacturers to be very inflexible, mainly because Indian manufacturers perceived themselves to be in a position to dictate terms of trade and did not relent to importers' demands. Importers consider the availability of a vast Indian home market to be one reason why Indian manufacturing exporters did not show them any flexibility.

Another reason for relationship discontinuation was related to work ethics of the organisations. Importers recounted experiences where their initial contacts had delivered products that were of inferior quality to that which was agreed upon in order to make it cost effective, thereby increasing profits for the manufacturing exporter. Such dishonesty was an obvious cause of relationship termination. In other instances, after completing the sampling process with the importer, the manufacturing-exporter approached the retailer with a promise to supply the retailer directly, thereby eliminating the cost of the intermediary. Such self-benefitting acts of dishonesty are aimed at short-term gains without regard to the benefits achieved by building long-term relationships, and are obvious causes of partner dis-selection.

Exporters also quote instances of dishonesty that led to partnership termination. These acts involved negotiation tactics where the importer insisted that he was able to get the same quality of products offered by the manufacturing-exporter at a lower price from another manufacturer, although upon investigation the exporter found out that the quality of the quoted product was very inferior to the exporter's. Giving incorrect information about the market and about competitors in order to benefit the importer at the cost of the exporter are also cited as causes of dissatisfaction and relationship termination.

Besides the above stated factors of product quality, production capability, attitude, and work ethics, other qualifications cited by dyadic partners as important factors in selecting partners for long-term relationships included goal synergy, professional approach to problem-solving, long-term orientation towards partnership, congruence of objectives, and mutual strategic planning.

8.2.1.3 RELATIONSHIP CONTINUATION

The relationships under study had a span of around 5 to 30 years and most had survived many ebbs and flows. Question 3 was set to investigate the causes behind survival and continuation of such relationships. Specifically, the question asked:

3. Why do firms continue to stay in a particular relationship?

Presence of qualities that are sought during the selection of dyadic partners, as laid out in question 2, were important factors in deciding whether a relationship should be allowed to continue, but their presence did not always ensure relationship continuation. From the perspective of relationship building, most importers continue relationships with exporters who share their “mentality” towards business in general, besides possessing the above mentioned characteristics.

As examples, BUK3 consider BP3 to be “very Westernised in their attitude towards the way business is conducted”. BUK1 say that it was with BP1 that they found the mentality that they could work with. In fact, BUK1 also mention that they did not desire a “Rolls Royce” mill and were happy to work with a basic production facility as long as the management shared their values and professionalism towards work. Mutual goal setting and mutual strategic planning were also considered important factors for relationship continuation.

From the analysis of data, we can identify the roles of both interpersonal and interorganisational relationships in determining continuation of interactions. The above examples relate to the interorganisational aspects of the relationship. These are important in that they define the quality of business interactions between the dyads. However, the research showed that in all cases but one, friendships and

strong interpersonal bonds have developed over time and these play a very significant role in shaping relational interactions and in determining relationship continuation. Interorganisational relationships may be marred due to conflicts of interest or, at times, incongruence of goals, but relationships continue through the norms of strong social and interpersonal relational bonds. These relationships continue even when business exchanges cease altogether, as in the case of PDCPs. In this case, importers may reduce their volumes of purchases from exporters, or in extreme cases, may altogether cease to buy from the exporters, but the interpersonal relationships continue, leaving a window open for importers to return and renew their purchase volumes when the market rates are feasible. This phenomenon was observed in the case of leather apparel where importers have once again returned to Pakistan because it has become the most cost-effective source of supply once again (Chapters 5, 6, and 7).

One relationship, namely that of TUK3 and TP3 is perceived as predominantly interorganisational. The partners do not express presence of close ties or the development of interpersonal bonds but interactional exchange has continued steadily for the past five years. The dyads regularly visit each other's countries and engage in social contacts such as going out for dinner but TP3 frankly express that there is no friendship between them and the interactions are purely business in nature. In spite of that, there has been continuous business and a steady flow of interactions between the two partners. TUK3 say that they have a good relationship with TP3 who are *"trustworthy, and we rely on them to deliver the product according to specifications."*

8.2.1.4 FACILITATORS/INHIBITORS OF RELATIONSHIP FORMATION

Research questions 4 and 5 examined the factors that facilitate or inhibit the formation of the relationships. The questions were worded as follows:

4. What are the factors that facilitate organizational relationships between the dyad?
5. What are the factors that inhibit organizational relationships?

In the context of Pakistan and UK exporters and importers, these factors were found to be interlinked in that presence of facilitators increased the momentum of relationship formation whereas their absence inhibited it. Important facilitators were the factors that built upon concepts of trust and commitment, namely positive mutually beneficial business history, honesty, open communication and transparency in manufacturing process stages, credibility and reliability of the partner, a mutual goal orientation and outlook towards long-term relationship, mutual strategic planning, and investment of time and effort (Chapter 6). Also included were the dyad partner's ability to adapt to cultural differences, flexibility in negotiating terms of trade, specifically price, and low costs (Chapters 5 and 7). It was seen in the case of TUK3-TP3 that even in the absence of close personal relationships, trustworthiness, reliability, and the ability to deliver according to specifications were considered important hallmarks of relational exchange between the dyads.

An inhibiting factor in the case of LUK1 was manufacturer's lack of ownership of tannery because LUK1 preferred to work with manufacturers who processed their

own leather. In other cases, inhibiting factors included the mentality differences in firms and their ethical attitudes towards business practices (Chapter 5 and 7). Process and product related inhibiting factors were cited as long turn-around time, delayed deliveries, and lack of product varieties.

Analysis of facilitators/inhibitors is based on the context of the research and does not include many factors, besides those mentioned, that may have a positive/negative influence but were not considered by the respondents because of their absence in the relationship context. For example, taking the case of leather apparel industry, presence of skilled labour would be a facilitator as it would increase labour productivity and the quality of product, but it was not mentioned by the importers since they only evaluated the current context. The objective of the research was not to build what-if scenarios, and was concentrated on studying how relationships had formed and what determined their continuation based on what the context of the research.

8.2.1.5 PERCEPTIONS OF RELATIONSHIPS

The final question was an enquiry about how the relationship between dyads was perceived by the two partners in the UK-Pakistan importer-exporter trade. Specifically, the question put forward was:

6. How do firms in the dyad perceive their relationships with their business partners and their business practices and products?

The dyadic partners were seasoned players in their respective fields of business and as such, had accumulated a portfolio of relationships with all their long-standing partners. The relationships chosen for this research were successful ones.

In the beginning of this research it was stated that only successful relationships will be studied because it was an exploratory research where no prior information existed on the specific dyads of UK importers and Pakistani exporters. The decision to study successful relationships was based on the fact that once this information is made available through the research findings, it would be possible to study relationship failure with a framework of what works and what does not. This research has attempted to provide a fair knowledge of development and continuation of successful business and relational interactions between the focal dyads.

The relationships are perceived as strong and on-going by both research partners, more so by the importers than by the exporters. The importers believe that their carefully selected partners are professional in their outlook towards business, trustworthy, and reliable. They believe that the partners are genuinely concerned about making the relationship work and will take all necessary steps to ensure long-lasting relational exchanges. These involve ensuring products are made according to agreed-upon specifications, and delivered as close to the delivery date as is possible, given the inefficiencies inherent in a newly developing country. Importers are aware that exporters try to match retailers' low price quotes as much as possible, to the extent that sometimes they produce at marginal cost and bear losses themselves in order to oblige the importer.

Importers value honesty about issues such as delays in production, and open communication about the state of the production as it progresses along the production line. Majority of importers believe that the exporting-manufacturers underestimate the issues that cause production delays, which result in late

shipments. Importers also believe that exporters do not follow strict standardisation principles as do the importers. Differences in specifications that are considered acceptable by the Pakistani manufacturing-exporters are not acceptable in the UK market. Importers consider these issues to be related to exporters' belief system as part of the social structure of exporters' country and term them as exporters' "*cultural ethics*". Some importers also believe that their chosen partner's "*cultural and work ethics*" are closer to the importers', thereby facilitating understandings and relationship formation.

Importers react to these perceptions by building into their business processes systems that provide checks and act as governance structures against issues of delays and quality standards. Importer or retailer induced quality checks at various steps of the manufacturing process and importer's active involvement is deemed necessary to ensure quality standards.

Exporters perceptions of relationship formation are similar to importers. They believe in developing and maintaining long-term prosperous relationships. Generally, exporters believe that their partners are trustworthy in finance related matters and will not cheat them out of the money that has been promised to them. TUK2 pay their suppliers TP2 50% of the price when they place an order with them! Exporters are, however, more sceptical of the behaviour and intentions of importers. They believe that although the dyadic relationships show a long history of positive interactions, the importers are not bound to them and will move their business where they can enjoy price advantages. Exporters believe that the importers genuinely consider the exporters as valuable trade partners but their business decisions are guided by price, not the relationship. Importers tend to

disagree and believe in developing sustainable long-term relationships and formation of relational bonds. TUK1 and BUK2 say that the prices of their partner's products are not the lowest but they prefer to continue business with their partners because of their mutual understandings, longevity of relationship, product quality and its wide acceptance in the European market, and partners' managerial compatibility.

In almost all cases, close interpersonal relationships have developed over time and are carefully maintained and nurtured. These relationships act as norms that bind the partners together and counter the threats of crisis situations such as the advent of PDCPs and competition from other sources. Personal relationships continue and are ascertained aggressively, even when interorganisational relationships are weak.

8.2.2 Interaction Model of Relationships Between UK-Importers and Pakistani-Exporters

The research has analysed interactions and relationships between importers and exporters on the basis of accounts respondents' accounts of factors that were important to them and that had an effect on their relationships. The IMP model was modified to show the dominant role of country perceptions impacting transactional exchanges in an importer-exporter dyadic relationship. Country perceptions resulted in stereotypical perceptions of 'made in Pakistan' labels as middle-market, main-stream. Retailers were happy to have Pakistani products categorised in the midmarket, high volumes, high minimums sector and did not want to place them in the high end where they would compete with Portugal, and

Turkey. Accepting exporters goods in the low-volume low minimums market would mean a move away from their strategy which was to acquire high-volume high-minimum products from Pakistan. Perceptions of product quality also meant greater input from the importers since importers felt that the exporting-manufacturers “...were not that ingenious...” and needed design inputs and QC overseeing.

Country perceptions also manifested themselves in the perception of work ethics where importers felt they needed to be involved in various stages of manufacturing process in order to ensure standard quality and timely deliveries.

It was found that country perceptions, as integral part of the environment surrounding interactions, significantly impacted relational interactions between importers and exporters. Country perceptions affected the power/dependence and distance/closeness components of the atmosphere so that transactional exchanges took place under their influence. Firstly, a balance of power towards the importers dictated product, information, and social exchange. For example, LUK1 visited Pakistan at every stage of the production process. While LP1 and LUK1 had a good social relationship, LP1 felt he was not given any choice and was obliged to allow the interference.

Secondly, country perceptions moderated adaptations and institutionalisation of norms because procedures were set according to image of country and involved strict QC by the importer or quality assurance agents, and not sharing of information that was perceived as damaging to the exchange (in case of correct delivery dates). When respondents were happy about the adaptations they had

made into the relationships and when they considered those adaptations to be beneficial to them they felt an increase in the quality of their relationships. For example, BUK1 talk about the time and effort they had spent in learning and teaching about each other's cultural requirements and feel very satisfied that it had paid off in the long-run. They perceive their exchange-partner, BP1, had invested in learning to produce bed-linen according to their requirements.

8.2.3 Contribution to Relationship Marketing

RM involves building strong long-lasting relationships with customers through such activities as co-production, mutual value creation, customer ownership, and developing customer loyalty. In a business-to-business importer-exporter context, RM involves developing long-term relationships through similar activities, building up of trust, and being committed to the relationship.

Research findings suggest that relationship building was strong on an interpersonal level. Pakistanis are known to be very welcoming and great hosts. They are also known to be good at making friends, a fact that most importers reciprocated. Another known fact is that when interorganisational relationships are supplemented with interpersonal relationships, strong bonds are created that result in trust between the partners, a desire for long-term commitment, reciprocity, and a mechanism of norms as implicit governance structures.

The findings of this research are that interpersonal relationships are not always the outcome of continued relational exchanges. Firms can strategically build social and interpersonal relationships to create bonds that keep firms together even during periods of no business interactions. This strategy results in continuation of

interpersonal and social interactions through social calls and drink parties. The advantage of such a strategy is that it is easy to fall back into the roles of buyers-suppliers when market rates are favourable for mutual business. In the research, we see that although exporters have been aggrieved and are uncertain of relationship continuation, importers maintain their social relationships and meet the exporters on a regular basis. This creates what Havila and Wilkinson (2002) call “relationship energy”. The word ‘energy’ is literally used in its scientific definition as indestructible and existing in different forms at any given time. When interorganisational relationships are terminated or at a hold, importers’ insistence on maintaining personal social relationships helps them keep the door open for return when they please.

The isolated incidences of opportunism have not marred these relationships completely, though exporters have become cautious and are in the process of widening their portfolio of relationships to account for market structure change and emerge wiser from the price crisis.

8.2.4 The Phenomenon of PDCPs

Another interesting contribution of the research is the advent of PDCPs. A currently on-going incidence, the onset of low prices because of competition from China was studied to have a major impact on both RQ and relational exchange. The concept of price competition is distinct in this case because of the perception of exporters and importers that price deflation was an unstable state and prices were bound to rise upwards when China realised its objectives of entering into heavy manufacturing and when China’s labour would become more expensive.

The perception of prices as transient resulted in perception of an interim period that needed to be strategically employed in order to survive up to the time when market conditions stabilized. Exporters looked inwards to avail options of sales in the local market and importers resorted to short-term gains to supplement their requirement of Pakistan-specific products.

Although it was a short-term phenomenon, like the financial crisis, its impact was just as hard and brutal for the exporters. The impact of lowering prices brought about changes in strategic planning and interim, short-term planning. Adaptations made over time and relational norms were forgotten. A snapshot of the incident was caught in this research but its impact was seen to be very significant for both importers and exporters.

8.2.5 Opportunism – A Consequence of PDCPs and Less-Facilitative Government

An outcome of the PDCPs is a scenario of likelihood of opportunism by importers due to price pressures from the retailers as a consequence of PDCPs. The importers are under pressure to provide supplies to retailers at the low market prices but they also have to provide some products that they can source only from Pakistan. In this likely situation, the importers are unable to procure supplies from their regular exporters because the exporters are unable to match the price points. The inability of exporters to sell to importers creates a state of uncertainty when exporters are uncertain of continued relationship. Uncertainty increases conflict and this negatively affects the quality of relationship.

In such a situation, importers were reported to resort to opportunism by looking for short-term gains. Exporters mentioned that some importers got the audit certificate for retailers from ISO compliant firms but proceeded to place supply orders at non-compliant cottage firms. These firms were able to match retailer dictated prices because of their lower cost structure and importers' act of self-interest enabled them to continue supplying to retailers the varieties and styles they needed. In short, exporters spelled out the short term strategy of importers while they waited for the effect of PDCPs to subside. This claim was not validated by importers but a packaging materials factory confirmed supplying for the importer in question at one of the non-compliant factories.

When such displays of relationship destroying activities take place, a double-barrel effect is likely on RQ because trust and commitment are lowered both by the direct effects of PDCPs on the exporters and the state of uncertainty it creates as well as by indirect effects through breach of trust or, according to the relational exchange theory, breach of the psychological contract.

8.3 MANAGERIAL IMPLICATIONS

There are a number of implications for managers here. Country perceptions are acting strongly against exporters and they need to be aware of that in order to improve the image of their products. Importers should also evaluate their perceptions in order to judge product quality more objectively. Importers and exporters could work together and pool resources to improve the image of the product in importers' markets. Country perceptions have deterred importers from making any monetary investments with their exchange-partners which is

understandable given the volatile environment. Exporters should seek importers' assistance to build a better product image in UK.

The advent of PDCPs poses challenges to both importers and exporters. If their detrimental effects are realised then short-term survival strategies should be formulated for alternative means of survival. The realisation of their interim stage and the expectation of normalcy is an indication of the importance of maintaining the sanctity of relational norms that have been built over through years of effort. A helpful concept is the idea the relationship energy that carries over to other relationships or other times. By maintaining good relations during the 'sleeping' phase of relationship, return to the previous state is smooth but if frustration, or in the extreme, opportunism is allowed to take over, then ties would be severed and it would be very hard to renew the relationship. What is required is a better understanding of the situation so that strategies could be made objectively. The best strategy is to drive the market instead of being market-driven.

Exporters should also take this as a lesson for future crisis planning and should have a diversified portfolio of business activities that would be able to absorb the shock.

8.4 LIMITATIONS OF THE RESEARCH

There are a number of limitations that should be kept in mind. This research was conducted in the context developed in the thesis and this must be taken into account when duplicating the study. The purpose of the research is not to generalise about a theory but to propose a theory whose applicability should be studied with regards to a match in context and settings. The sample size of such a

research is purposely kept small in order to study phenomena in great depth. When adopting theory for testing these facts need to be kept in mind.

Qualitative research is subject to researcher bias at best. Every care has been taken to maintain the authenticity and reliability of the data. Maximum objectivity has been maintained through interviews and their analysis and the interpretations of interviews were checked against an expert opinion. However, human error is unavoidable. An interpretive research may have as many interpretations as there are readers.

8.5 FUTURE RESEARCH

A lot of research needs to be done in this area before a satisfactory level of knowledge is accumulated. Although a lot of business research is carried out in Pakistan, there is very scant academic research. In order to build a model of Pakistani exports with developed countries, similar research needs to be conducted in different settings with context being recorded carefully so that comparisons could be made and generalisations achieved. Similarly, different exporting-industries need to be studied.

PDPCs were observed at a point in time and their phenomenon was perceived to be short-term, based on calculations of importers and exporters. However, with the strong influence it had on both importers and exporters, it is imperative that better understanding should be gained of its determinants and consequences. Research in that direction would increase understanding of the length and amount of its effects on importers-exporters.

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APPENDICES

APPENDIX A

APPENDIX A1 : CUMULATIVE EXPORTS OF PAKISTAN BY BUYING COUNTRIES – GB£, THOUSANDS

Rank	Importers	Exported value, 2007	Exported value, 2008	Exported value, 2009	Exported value, 2010	Exported value, 2011
	World	8,911,122.7	10,931,014.17	11,210,377.48	13,847,725.23	15,796,796.56
1	USA	1,924,987.88	1,969,574.11	2,056,887.73	2,376,264.82	2,392,951.02
2	Afghanistan	418,459.53	780,310.61	877,344.79	1,089,463.39	1,658,164.53
3	UAE	1,056,396.54	1,083,348.42	982,537.68	1,186,622.7	1,197,336.91
4	China	306,601.47	391,719.03	637,226.57	928,616.37	1,046,496.82
5	Germany	362,648.14	474,344.78	459,310.89	634,546.5	817,898.07
6	United Kingdom	483,251.28	539,258.01	601,947.92	720,332.4	784,604.44
7	Bangladesh	139,499.5	227,652.31	234,607.13	411,820.56	590,408.16
8	Italy	340,994.78	378,574.24	354,700.4	415,335.34	484,596.58
9	Turkey	222,930.84	253,817.37	259,986.25	416,547.89	471,161.95
Total:206 countries						

Source: ITC calculations based on UN COMTRADE statistics (ITC, 2011).

APPENDIX A2 : CUMULATIVE IMPORTS OF UNITED KINGDOM BY SUPPLYING COUNTRIES – GB£, THOUSANDS

Rank	Exporters	Imported value, 2007	Imported value, 2008	Imported value, 2009	Imported value, 2010	Imported value, 2011
	World	312,023,406.94	341,987,027.22	308,374,259.96	363,766,059.2	395,429,921.98
1	Germany	44,535,293.43	44,569,734.36	40,001,671.38	46,174,284	49,834,701.33
2	China	23,288,335.63	26,955,022.56	27,634,648.49	33,892,208.18	35,394,187.18
3	USA	26,586,924.9	29,783,377.65	29,645,430.16	32,492,578.7	32,113,959.08
4	Netherlands	22,877,713	25,219,026.32	21,448,238.14	26,277,566.75	28,087,825.43
5	France	22,265,902.3	23,730,722.98	21,372,504.37	23,395,463.71	24,160,225.69
6	Norway	14,216,310.34	20,192,125.79	14,716,280.76	19,227,766.63	23,700,682.07
7	Belgium	14,867,209.59	16,028,362.68	14,841,234.39	17,038,475.92	18,681,795.1
8	Italy	13,521,634.29	14,174,627.73	12,313,224.28	14,256,050.41	14,581,530.4
9	Ireland	11,259,930.75	11,979,916.95	12,213,637.63	12,768,846.28	12,964,745.57
.....						
53	Pakistan	504,196.28	588,299.5	640,823.15	746,094.75	845,353.85
Total:225 countries						

Source: ITC calculations based on UN COMTRADE statistics (ITC, 2011).

**APPENDIX A3 : UNITED KINGDOM IMPORTS BY COUNTRIES; PRODUCT: 63 - OTHER
MADE TEXTILE ARTICLES, SETS, WORN CLOTHING ETC. – GB£, THOUSANDS**

Rank	Exporters	Imported value, 2007	Imported value, 2008	Imported value, 2009	Imported value, 2010	Imported value, 2011
	World	1,152,795.12	1,192,337.59	1,229,729.64	1,366,473.48	1,409,355.86
1	China	365,078.94	423,843.06	465,210.25	550,468.52	535,629.97
2	Pakistan	156,951.67	158,933	199,907.68	230,514.72	240,925.16
3	India	117,143.77	121,200.9	123,085.1	142,823.02	175,357.01
4	Germany	50,840.4	54,751.97	59,507.02	62,080.04	66,235.7
5	Turkey	101,040.87	87,116.41	75,565.82	60,337.84	58,962.4
6	Bangladesh	55,926.28	61,173.44	48,910.78	42,331.3	48,901.08
7	Portugal	60,339.28	44,643.54	28,233.01	28,960.9	30,907
8	Ireland	14,385.45	17,382.1	20,839.97	25,250.81	29,869.83
9	Netherlands	24,623.17	23,048.38	19,907.62	21,426.27	23,127.58
10	France	24,222.03	23,978.75	21,997.11	20,941.89	20,357.01
Total:156 countries						

Source: ITC calculations based on UN COMTRADE statistics (ITC, 2011).

**APPENDIX A4 : PAKISTAN EXPORTS BY COUNTRIES; PRODUCT: 63 - OTHER MADE
TEXTILE ARTICLES, SETS, WORN CLOTHING ETC. – GB£, THOUSANDS**

Rank	Importers	Exported value, 2007	Exported value, 2008	Exported value, 2009	Exported value, 2010	Exported value, 2011
	World	1,588,302.19	1,695,531.8	1,863,121.44	2,124,086.49	2,225,405.84
1	USA	748,916.87	722,612.84	777,737.07	900,480.65	877,511.82
2	United Kingdom	158,857.94	159,772.8	208,130.26	243,380.7	241,492.36
3	Germany	79,531.38	89,862.77	111,233.38	157,964.71	192,640.52
4	Belgium	57,555.81	66,431.67	73,696.01	96,720.85	110,969.39
5	Italy	48,357.65	56,551.79	63,470.79	71,230.11	80,789.16
6	Netherlands	59,614.44	69,055.67	75,731.86	68,918.83	78,711.07
7	France	49,460.15	48,306.25	48,228.76	65,927.87	78,644.38
8	Spain	51,620.69	55,357.3	53,531.67	59,249.46	67,421.22
9	UAE	38,683.42	63,558.11	82,038.64	55,386.75	52,204.58
10	Australia	29,416.82	32,519.14	29,056.8	41,984.67	48,038.43
Total:185 countries						

Sources : ITC calculations based on UN COMTRADE statistics (ITC, 2011).

**APPENDIX A5 : UNITED KINGDOM IMPORTS BY COUNTRIES; PRODUCT: 420310
ARTICLES OF APPAREL OF LEATHER OR OF COMPOSITION LEATHER –GB£, THOUSANDS**

Rank	Exporters	Imported value, 2007	Imported value, 2008	Imported value, 2009	Imported value, 2010	Imported value, 2011
	World	107,501.52	113,403.83	112,718.12	110,746.35	118,412.85
1	Italy	20,329.07	20,524.65	21,214.83	21,944.91	31,434.94
2	India	13,947.85	18,291.98	18,304.74	17,692.25	19,080.49
3	Pakistan	15,048.85	19,304.28	17,199.33	16,129.84	14,877.57
4	China	25,569.81	21,001.15	18,725.58	16,419.56	11,867.65
5	France	6,814.32	6,172.97	11,809.57	9,586.59	11,551.01
6	Turkey	6,631.49	7,637.52	4,977.86	6,390.63	5,417.11
7	Germany	7,044.61	6,820.89	5,658.61	5,090.13	5,207.06
8	Mauritius	3,268.04	2,041.85	2,735.75	6,078.28	4,800.04
9	Netherlands	1,430.2	1,604.15	1,632.25	2,740.69	3,759.75
10	Spain	1,596.55	2,943.64	4,154.71	2,522.75	2,936.37
Total:78 countries						

Source: ITC calculations based on UN COMTRADE statistics (ITC, 2011).

**APPENDIX A6 : PAKISTAN EXPORTS BY COUNTRIES; PRODUCT: 420310 ARTICLES OF
APPAREL OF LEATHER OR OF COMPOSITION LEATHER – GB£, THOUSANDS**

Rank	Importers	Exported value, 2007	Exported value, 2008	Exported value, 2009	Exported value, 2010	Exported value, 2011
	World	220,374.66	254,424.86	222,747.74	236,541.91	231,230.34
1	Germany	18,662.08	34,859.07	34,072.98	49,367.33	56,329.58
2	USA	21,790.74	29,580.89	26,514.55	23,548.07	25,996.01
3	France	14,832.55	21,705.12	23,023.98	24,809.77	23,294.63
4	Spain	22,824.3	24,508.08	32,038.41	28,315.5	19,665.15
5	Netherlands	9,301.57	12,506.57	11,109.03	12,413.29	16,516.23
6	United Kingdom	16,378.15	19,690.23	17,004.56	16,715.75	15,462.23
7	Belgium	7,443.25	12,606.29	12,997.36	13,627.78	13,560.54
8	Turkey	3,404.41	14,471.88	14,508.92	11,202.03	10,333.08
9	Italy	3,523.3	4,837.79	4,705.18	6,603.39	7,128.07
Total:131 countries						

Source: ITC calculations based on UN COMTRADE statistics (ITC, 2011).

**APPENDIX A7 : COMPARISON OF SOME ECONOMIC AND SOCIAL INDICATORS OF
PAKISTAN AND UNITED KINGDOM**

Indicators	Pakistan	United Kingdom
Main religion	97% Muslims	Mostly Christians
GDP (current US\$ - billions)	168.28 (2008)	2,645.59 (2008)
GDP growth (annual %)	6.0 (2008)	0.7 (2008)
Inflation, GDP deflator ⁹⁹ (annual %)	13.4 (2008)	2.4 (2008)
Agriculture, value added (% of GDP)	21 (2007) 20 (2008)	1.0 (2008)
Industry, value added (% of GDP)	27 (2007 – 2008)	23 (2007)
Services etc., value added (% of GDP)	53 (2007 – 2008)	76 (2007)
GNI per capita, PPP ¹⁰⁰ (current international \$)	2,700 (2008)	36,130 (2008)
GNI, PPP (current international \$) (billions)	448.84 (2008)	2,218.21 (2008)
Population, total (millions)	166.04 (2008)	61.4 (2008)
Population growth (annual %)	2.2 (2008)	0.6 (2008)
Population below poverty line (%)	35 (2006)	14.0 (2006)
Mobile cellular subscriptions (per 100 people)	53 (2008)	123 (2008)
Internet users (per 100 people)	11.1 (2008)	79.4 (2008)
Roads paved (% of total roads)	53 (2000)	100 (2005)
TV sets (per 100 people)	8.2 (2003)	110.14 (2003)
Personal computers (per 100 people)	0.4 (2004)	60 (2004)
Under 15 population (% of total)	36.9 (2009)	14 (2009)
Population 60+ (% of total)	6.1 M, 6.2 F (2009)	20.5 M, 24.3 F (2009)
Aid (% of GNI – gross national income)	1.7 (2006)	Major donor
External debt (PV US \$) (Billions)	35.9 (2006)	Major donor

Source: (World Bank, 2010) (UN, 2010)

⁹⁹ “Inflation, as measured by the annual growth rate of the GDP implicit deflator, shows the rate of price change in the economy as a whole. GDP implicit deflator = GDP in current local currency/GDP in constant local currency; source: World Bank National Accounts Data.

¹⁰⁰ “GNI per capita based on Purchasing Power Parity (PPP); gross national income converted to international dollars using purchasing power parity”. GNI = value added by all resident producers + any product taxes (less subsidies) not included in the valuation of output + net receipts of primary income (compensation of employees and property income) from abroad Source: World Bank, International Comparison Program Database.

**APPENDIX A8 : TRADE PERFORMANCE HS: EXPORTS OF PAKISTAN TOP 10 PRODUCTS
(2011, GB£, THOUSANDS)**

Rank	Code	Product label	Exported value, 2007	Exported value, 2008	Exported value, 2009	Exported value, 2010	Exported value, 2011
	Total	All products	8,911,122.7	10,931,014.17	11,210,377.48	13,847,725.23	15,796,796.56
1	52	Cotton	1,718,230.87	1,938,135.19	2,045,931.96	2,595,453.99	3,177,048.1
2	63	Other made textile articles, sets, worn clothing etc	1,588,302.19	1,695,531.8	1,863,121.44	2,124,086.49	2,225,405.84
3	10	Cereals	621,509.9	1,351,827.95	1,164,300.91	1,474,182.3	1,749,809.73
4	61	Articles of apparel, accessories, knit or crochet	924,663.5	1,017,940.37	1,073,336.6	1,282,021.06	1,395,474.33
5	62	Articles of apparel, accessories, not knit or crochet	684,898.42	733,712	770,466.64	945,235.76	1,106,154.21
6	27	Mineral fuels, oils, distillation products, etc	496,758.53	662,883.46	456,322.9	777,727.78	818,048.9
7	42	Articles of leather, animal gut, harness, travel goods	345,497.2	413,355.16	369,049.68	400,201.41	424,682.4
8	55	Manmade staple fibers	192,899.07	153,510.35	191,617.42	330,617.78	377,713.55
9	25	Salt, sulphur, earth, stone, plaster, lime and cement	125,753.96	323,959.19	359,775.97	332,663.92	355,673
10	39	Plastics and articles thereof	93,177.5	159,802.45	195,281.05	263,936.52	339,002.82
Total:97 products							

Source: ITC calculations based on UN COMTRADE statistics (ITC, 2011)

APPENDIX A9 : TRADE PERFORMANCE HS: IMPORTS OF UNITED KINGDOM (2011, GB£ THOUSANDS)

Rank	Code	Product label	Imported value, 2007	Imported value, 2008	Imported value, 2009	Imported value, 2010	Imported value, 2011
	TOTAL	All products	312,023,406.94	341,987,027.22	308,374,259.96	363,766,059.2	395,429,921.98
1	27	Mineral fuels, oils, distillation products, etc	29,502,891.14	44,196,252.87	31,597,326.79	40,882,324.27	56,445,799.48
2	84	Machinery, nuclear reactors, boilers, etc	41,401,750.5	43,597,885.37	38,237,436.05	43,774,365.06	46,631,111.83
3	87	Vehicles other than railway, tramway	37,982,907.78	35,259,424.39	27,398,907.22	35,095,112.05	37,945,287.74
4	85	Electrical, electronic equipment	31,373,860.51	32,342,061.43	30,715,608.89	35,726,477.46	36,317,429.97
5	30	Pharmaceutical products	9,873,471.02	10,752,177.49	12,940,067.26	14,909,795.96	15,890,147.73
6	71	Pearls, precious stones, metals, coins, etc	9,417,954.6	10,021,409.13	9,460,509.94	12,756,392.89	15,190,206.88
7	39	Plastics and articles thereof	8,790,503.08	9,429,303.54	8,740,537.17	10,535,429.05	11,574,790.57
8	29	Organic chemicals	9,014,774.21	8,804,795.78	8,604,563.26	9,873,486.66	10,458,515.2
9	90	Optical, photo, technical, medical, etc apparatus	8,026,901.03	8,878,227.83	8,992,682.72	9,668,491.12	10,096,728.86
10	62	Articles of apparel, accessories, not knit or crochet	6,173,735.02	6,548,925.04	6,721,133.8	6,994,803.33	7,744,597.2
.....Continued.....							
37	42	Articles of leather, animal gut, harness, travel goods	1,401,110.44	1,577,825.44	1,540,744.26	1,742,284.17	1,909,501.94
.....Continued.....							
48	63	Other made textile articles, sets, worn clothing etc	1,152,795.12	1,192,337.59	1,229,729.64	1,366,473.48	1,409,355.86
.....Continued to 97 product categories.....							

Source: (ITC, 2011)

APPENDIX A10 : IMPORTS OF UNITED KINGDOM; TRADE PERFORMANCE HS: 63 – OTHER MADE TEXTILE ARTICLES, SETS, WORN CLOTHING ETC (2007-2011, GB£, THOUSANDS)

Rank	Exporters	Imported value, 2007	Imported value, 2008	Imported value, 2009	Imported value, 2010	Imported value, 2011
	World	1,152,795.12	1,192,337.59	1,229,729.64	1,366,473.48	1,409,355.86
1	China	365,078.94	423,843.06	465,210.25	550,468.52	535,629.97
2	Pakistan	156,951.67	158,933	199,907.68	230,514.72	240,925.16
3	India	117,143.77	121,200.9	123,085.1	142,823.02	175,357.01
4	Germany	50,840.4	54,751.97	59,507.02	62,080.04	66,235.7
5	Turkey	101,040.87	87,116.41	75,565.82	60,337.84	58,962.4
6	Bangladesh	55,926.28	61,173.44	48,910.78	42,331.3	48,901.08
7	Portugal	60,339.28	44,643.54	28,233.01	28,960.9	30,907
8	Ireland	14,385.45	17,382.1	20,839.97	25,250.81	29,869.83
9	Netherlands	24,623.17	23,048.38	19,907.62	21,426.27	23,127.58
10	France	24,222.03	23,978.75	21,997.11	20,941.89	20,357.01
Total: 155 countries						

Source: ITC calculations based on UN COMTRADE statistics (ITC, 2011).

APPENDIX A11 : EXPORTS OF PAKISTAN TRADE PERFORMANCE HS: 63 - OTHER MADE TEXTILE ARTICLES, SETS, WORN CLOTHING ETC (2007-2011, GB£, THOUSANDS)

Rank	Importers	Exported value, 2007	Exported value, 2008	Exported value, 2009	Exported value, 2010	Exported value, 2011
	World	1,588,302.19	1,695,531.8	1,863,121.44	2,124,086.49	2,225,405.84
1	USA	748,916.87	722,612.84	777,737.07	900,480.65	877,511.82
2	United Kingdom	158,857.94	159,772.8	208,130.26	243,380.7	241,492.36
3	Germany	79,531.38	89,862.77	111,233.38	157,964.71	192,640.52
4	Belgium	57,555.81	66,431.67	73,696.01	96,720.85	110,969.39
5	Italy	48,357.65	56,551.79	63,470.79	71,230.11	80,789.16
6	Netherlands	59,614.44	69,055.67	75,731.86	68,918.83	78,711.07
7	France	49,460.15	48,306.25	48,228.76	65,927.87	78,644.38
8	Spain	51,620.69	55,357.3	53,531.67	59,249.46	67,421.22
9	UAE	38,683.42	63,558.11	82,038.64	55,386.75	52,204.58
10	Australia	29,416.82	32,519.14	29,056.8	41,984.67	48,038.43
Total: 184 countries						

Source: ITC calculations based on UN COMTRADE statistics (ITC, 2011).

APPENDIX A12 : PAKISTAN EXPORTS IN 2011; HS 6302: BED, TABLE, TOILET, AND KITCHEN LINENS (UD\$)

		Exported value 2011	Annual growth, 2007-2011 (% p.a.)	Annual growth, 2010-2011 (% p.a.)	Annual growth in world imports 2007-2011 (% p.a.)	Share in world exports(%)	Ranking in world exports
TOTAL	All products	25,343,769	8	18	4	0.1	66
630231	Bed linen, of cotton, nes	796,473	-4	13	3	19	3
630260	Toilet & kitchen linen of terry toweling or similar terry fabric, of cotton	746,683	6	8	4	11.5	3
630239	Bed linen, of other textile materials, nes	573,595	10	16	0	73	1
630210	Bed linen, of textile knitted or crocheted materials	521,550	8	-13	8	46.8	1
630221	Bed linen, of cotton, printed, not knitted	70,065	-6	78	5	2.7	11
630229	Bed linen, of other textile materials, printed, not knitted	33,145	3	41	-7	33.9	1
630291	Toilet and kitchen linen, of cotton, nes	24,604	-2	37	1	3.2	5
630222	Bed linen, of man-made fibres, printed, not knitted	23,057	-8	105	9	2.4	7
630299	Toilet and kitchen linen, of other textile materials	18,253	78	3108	3	11.8	4
630251	Table linen, of cotton, not knitted	14,147	-14	-50	-4	1.9	10
630232	Bed linen, of man-made fibres, nes	10,771	-37	-38	14	0.7	11
630259	Table linen, of other textile materials, not knitted	5,366	23	-51	-8	5.4	6
630253	Table linen, of man-made fibres, not knitted	3,847	35	151	3	0.5	16
630240	Table linen, of textile knitted or crocheted materials	3,409	2	49	-11	6.3	3
630293	Toilet and kitchen linen, of man-made fibres	6	0		22	0	74

Source: ITC calculations based on UN COMTRADE statistics (ITC, 2011).

APPENDIX A13 : SUPPLYING MARKETS FOR UNITED KINGDOM IN 2011; PRODUCT:6302 BED, TABLE, TOILET AND KITCHEN LINENS

United Kingdom's imports represent **5.43%** of world imports for this product, its ranking in world imports is **5**

Rank	Exporters	Imported value 2011 (USD thousand)	Share in United Kingdom's imports (%)	Imported quantity (tons) 2011	Imported growth in value; 2010-2011 (% , p.a.)	Partner countries' ranking in world exports	Partner countries' share in world exports (%)	Total export growth-partner countries; 2007-2011 (% , p.a.)
1	World	1,024,629	100	115,683	10		100	5
2	Pakistan	303,352	29.6	41,534	10	2	13.7	2
3	China	266,969	26.1	28,665	2	1	38.3	11
4	India	147,850	14.4	16,693	32	3	11.9	9
5	Turkey	60,320	5.9	5,110	-2	4	5.8	-3
6	Bangladesh	57,498	5.6	7,663	15	6	3	14
7	Portugal	45,007	4.4	3,541	11	7	2.7	-5
8	Germany	32,759	3.2	2,446	62	5	3.5	19
9	Egypt	29,589	2.9	2,797	30	12	1.2	-1
10	Ireland	17,574	1.7	2,855	19	51	0.1	-12
Total: 124 countries								

Source: ITC calculations based on UN COMTRADE statistics (ITC, 2011).

APPENDIX A14 : IMPORTING MARKETS FOR PAKISTAN'S PRODUCT IN 2011; PRODUCT:6302 BED, TABLE, TOILET, AND KITCHEN LINENS

Pakistan's exports represent **13.68%** of world exports for this product, its ranking in world exports is **2**

Rank	Importers	Exported value 2011 (USD thousand)	Share in Pakistan's exports (%)	Exported quantity 2011	Exported growth in value between 2010-2011 (% , p.a.)	Ranking of partner countries in world imports	Share of partner countries in world imports (%)	Total import growth in value of partner countries between 2007-2011 (% , p.a.)
1	World 133	2,844,973	100	450,176	8		100	4
2	USA	1,007,798	35.4	167,600	0	1	26.3	1
3	United Kingdom	316,401	11.1	47,762	0	5	5.4	-2
4	Germany	276,770	9.7	38,690	24	2	10	9
5	Belgium	168,311	5.9	22,302	19	8	2.6	3
6	Italy	118,699	4.2	20,112	21	6	2.9	4
7	France	118,313	4.2	16,016	25	4	6.2	4
8	Netherlands	115,792	4.1	17,024	21	7	2.8	11
9	Spain	104,257	3.7	15,468	19	9	2.5	-1
10	Australia	71,614	2.5	11,379	20	11	2.4	8
Total: 133 countries								

Source: ITC calculations based on UN COMTRADE statistics (ITC, 2011).

APPENDIX A15 : TRADE BETWEEN UNITED KINGDOM AND PAKISTAN; PRODUCT 6302: BED, TABLE, TOILET, KITCHEN LINENS,GB£ THOUSANDS

HS Code	Product label	Pakistan rank: UK imports	UK's imports from Pakistan – value, GB£			Pakistan's exports to the world – value, GB£			UK's imports from the world – value, GB£		
			2009	2010	2011	2009	2010	2011	2009	2010	2011
630232	Bed linen, of man-made fibres, nes	1	41,044	56,790	57,948	6,362	11,194	6,714	94,442	116,408	113,487
630222	Bed linen, of man-made fibres, printed, not knitted	2	37,867	44,242	41,734	12,622	7,268	14,371	87,164	103,263	104,071
630231	Bed linen, of cotton, nes	1	42,739	33,803	40,846	419,738	455,476	496,442	117,349	109,838	119,944
630260	Toilet & kitchen linen, of terry toweling or similar terry fab,of cotton	2	17,679	27,051	27,524	403,623	445,057	465,408	130,393	137,368	150,065
630221	Bed linen, of cotton, printed, not knitted	1	5,846	8,168	11,351	25,148	25,436	43,672	39,444	42,391	49,559
630291	Toilet and kitchen linen, of cotton, nes	3	3,113	3,679	4,164	11,023	11,644	15,336	32,622	31,554	34,537
630210	Bed linen, of textile knitted or crocheted materials	4	396	1,145	2,029	345,581	388,707	325,083	8,997	11,516	19,924
630239	Bed linen, of other textile materials, nes	2	529	779	1,784	260,221	318,668	357,522	4,763	7,017	9,118
630251	Table linen, of cotton, not knitted	3	1,325	2,099	865	13,272	18,179	8,818	18,153	19,521	16,305
630253	Table linen, of man-made fibres, not knitted	7	215	127	284	3,288	992	2,398	7,623	9,617	10,195
630299	Toilet and kitchen linen, of other textile materials	3	26	128	237	4010	368	11,377	1,773	2,300	2,461
630229	Bed linen, of other textile materials, printed, not knitted	1	543	495	214	16,662	15,212	20,659	2,178	2,035	958
630259	Table linen, of other textile materials, not knitted	8	1	7	77	1,955	7,062	3,345	2,356	1,787	2,475
630240	Table linen, of textile knitted or crocheted materials	12	48	126	12	1,045	1,479	2,125	1,051	1,707	1,237
630293	Toilet, kitchen linen, of man-made fibres	18	116	41	10	31	0	4	2,899	3,850	4,317

Source: ITC calculations based on COMTRADE statistics (ITC, 2011).

**APPENDIX A16 : BILATERAL TRADE BETWEEN PAKISTAN AND UNITED KINGDOM, 2011; PRODUCT 6302 – BED, TABLE, TOILET, AND KITCHEN LINENS –
TRADE STATISTICS,US\$, THOUSANDS**

Product Code	Product Label	UK's imports from Pakistan			Pakistan's exports to world			UK's imports from world		
		Value in 2011, USD thousand	Annual growth: 2007-2011, %, p.a.	Share in UK's imports, %	Value in 2011, USD thousand	Annual growth: 2007-2011, %, p.a.	Share in world exports %	Value in 2011, USD thousand	Annual growth: 2007-2011, %, p.a.	Share in world imports %
630232	Bed linen, of man-made fibres, nes	92,970	17	51.1	10,771	-37	0.7	182,074	6	14.9
630222	Bed linen, of man-made fibres, printed, not knitted	66,956	10	40.1	23,057	-8	2.4	166,967	2	16.5
630231	Bed linen, of cotton, nes	65,532	4	34.1	796,473	-4	19	192,433	-6	5
630260	Toilet & kitchen linen, of terry towellg or similar terry fab, of cotton	44,159	4	18.3	746,683	6	11.5	240,759	-5	4.2
630221	Bed linen, of cotton, printed, not knitted	18,211	22	22.9	70,065	-6	2.7	79,511	0	2.6
630291	Toilet and kitchen linen, of cotton, nes	6,680	11	12.1	24,604	-2	3.2	55,409	1	7.6
630210	Bed linen, of textile knitted or crocheted materials	3,255	13	10.2	521,550	8	46.8	31,966	2	3.1
630239	Bed linen, of other textile materials, nes	2,862	7	19.6	573,595	10	73	14,628	3	5.7
630251	Table linen, of cotton, not knitted	1,387	1	5.3	14,147	-14	1.9	26,159	-8	3.7
630253	Table linen, of man-made fibres, not knitted	455	-6	2.8	3,847	35	0.5	16,356	4	2.9
630299	Toilet and kitchen linen, of other textile materials	380	32	9.6	18,253	78	11.8	3,948	-4	3.4
630229	Bed linen, of other textile materials, printed, not knitted	344	-21	22.4	33,145	3	33.9	1,537	-26	2.1
630259	Table linen, of other textile materials, not knitted	124	120	3.1	5,366	23	5.4	3,970	-21	3.9
630240	Table linen, of textile knitted or crocheted materials	20		1	3,409	2	6.3	1,985	-26	5.4
630293	Toilet and kitchen linen, of man-made fibres	16	-51	0.2	6	0	0	6,926	-8	2.1

Source: ITC calculations based on COMTRADE statistics (ITC, 2011).

Pakistan's exports have been reported by Pakistan. United Kingdom's imports have been reported by United Kingdom.

**APPENDIX A17 : BILATERAL TRADE BETWEEN PAKISTAN AND UNITED KINGDOM; PRODUCT: 42 - ARTICLES OF LEATHER, ANIMAL GUT,
HARNESS, TRAVEL GOODS; GB£ THOUSAND**

HS Code	Product label	United Kingdom's imports from Pakistan			Pakistan's exports to the world			United Kingdom's imports from world		
		Value in 2009	Value in 2010	Value in 2011	Value in 2009	Value in 2010	Value in 2011	Value in 2009	Value in 2010	Value in 2011
4203	Articles of apparel & clothing access, of leather or composition leather	22,987.58	22,219.11	21,521.96	352,676.69	382,012.49	404,811.56	219,262.28	222,061.14	235,529.87
4202	Trunks, suit-cases ,camera cases, handbags etc, of leather, plas, tex etc	966.84	1,594.1	2,298.11	8,855.42	9,642.85	10,227.75	1,246,584.13	1,444,375.53	1,596,467.71
4205	Articles of leather or composition leather, nes	116.86	106.06	229.37	3,742.82	4,304.4	3,929.29	34,756.28	29,910.89	30,534.89
4201	Saddlery and harness for any animal, of any material	123.25	86.66	129.02	3,770.28	4,241.02	5,713.8	40,067.49	45,874.53	46,806.17
4206	Articles of gut, of goldbeater's skins, of bladders or of tendons	0	0	1.25	5.11	1.29	0	74.08	63.38	163.3

Source: (ITC 2011). ITC calculations based on COMTRADE statistics

APPENDIX A 18 : LIST OF COUNTRIES FOR A PRODUCT EXPORTED BY PAKISTAN; HS420310, ARTICLES OF APPAREL OF LEATHER OR OF COMPOSITION OF LEATHER

Rank	Importers	Exported value in 2009	Exported value in 2010	Exported value in 2011
	World 110	222,747.74	236,541.91	231,230.34
1	Germany	34,072.98	49,367.33	56,329.58
2	United States of America	26,514.55	23,548.07	25,996.01
3	France	23,023.98	24,809.77	23,294.63
4	Spain	32,038.41	28,315.5	19,665.15
5	Netherlands	11,109.03	12,413.29	16,516.23
6	United Kingdom	17,004.56	16,715.75	15,462.23
7	Belgium	12,997.36	13,627.78	13,560.54
8	Turkey	14,508.92	11,202.03	10,333.08
9	Italy	4,705.18	6,603.39	7,128.07
10	Canada	4,995.74	6,210.85	6,732.27
Total: 110 Countries				

Sources : ITC calculations based on UN COMTRADE statistics (ITC, 2011).

APPENDIX A19 : LIST OF SUPPLYING MARKETS FOR A PRODUCT IMPORTED BY UNITED KINGDOM; HS420310, ARTICLES OF APPAREL OF LEATHER OR OF COMPOSITION LEATHER

United Kingdom's imports represent **4.97%** of world imports for this product, its ranking in world imports is **5**

Rank	Exporters	Imported value in 2009	Imported value in 2010	Imported value in 2011
	World	112,718.12	110,746.35	118,412.85
1	Italy	21,214.83	21,944.91	31,434.94
2	India	18,304.74	17,692.25	19,080.49
3	Pakistan	17,199.33	16,129.84	14,877.57
4	China	18,725.58	16,419.56	11,867.65
5	France	11,809.57	9,586.59	11,551.01
6	Turkey	4,977.86	6,390.63	5,417.11
7	Germany	5,658.61	5,090.13	5,207.06
8	Mauritius	2,735.75	6,078.28	4,800.04
9	Netherlands	1,632.25	2,740.69	3,759.75
10	Spain	4,154.71	2,522.75	2,936.37
Total: 66 Countries				

Sources : ITC calculations based on UN COMTRADE statistics.

APPENDIX A 20 :LIST OF IMPORTING MARKETS FOR THE PRODUCT EXPORTED BY PAKISTAN; HS420310, ARTICLES OF APPAREL OF LEATHER OR OF COMPOSITION LEATHER-TRADE STATISTICS,US\$, THOUSANDS

Rank	Importers	Exported value 2011 (USD thousand)	Share in Pakistan's exports (%)	Exported quantity 2011	Unit value (USD/unit)	Exported growth in value between 2007-2011 (% , p.a.)	Exported growth in quantity between 2007-2011 (% , p.a.)	Exported growth in value between 2010-2011 (% , p.a.)	Ranking of partner countries in world imports	Share of partner countries in world imports (%)	Total import growth in value of partner countries between 2007-2011 (% , p.a.)
	World	370,977	100	3,056	121,393	-6	-13	1		100	-3
1	Germany	90,373	24.4	744	121,469	21	12	18	1	14.3	2
2	USA	41,707	11.2	344	121,241	-5	-12	15	2	12.5	-13
3	France	37,373	10.1	308	121,341	4	-4	-3	3	9.4	5
4	Spain	31,550	8.5	260	121,346	-7	-15	-28	6	4.8	-5
5	Netherlands	26,498	7.1	218	121,550	5	-3	38	8	3.7	-3
6	United Kingdom	24,807	6.7	204	121,603	-9	-16	-4	5	5	-4
7	Belgium	21,756	5.9	179	121,542	7	-2	3	14	2.8	-2
8	Turkey	16,578	4.5	137	121,007	14	4	-4	16	2.2	14
9	Italy	11,436	3.1	94	121,660	12	4	12	4	7	-2
10	Canada	10,801	2.9	89	121,360	15	6	12	15	2.3	-6
11	South Africa	8,157	2.2	67	121,746	-44	-49	-25	39	0.2	-22
12	Russian Federation	6,817	1.8	56	121,732	69	56	119	10	3.4	23
13	Sweden	6,486	1.7	53	122,377	6	-3	-27	18	1	-4
14	Japan	4,258	1.1	35	121,657	6	-1	-20	9	3.6	-5
Total: 94 Countries											

Sources : ITC calculations based on UN COMTRADE statistics (ITC, 2011)

APPENDIX A 21 :LIST OF SUPPLYING MARKETS FOR A PRODUCT IMPORTED BY UNITED KINGDOM IN 2011; HS320310, ARTICLES OF APPAREL OF LEATHER OR OF COMPOSITION LEATHER, US\$, THOUSANDS

Rank	Exporters	Imported value 2011 (USD thousand)	Share in United Kingdom's imports (%)	Imported quantity tons-2011	Unit value (USD/ unit)	Imported growth in value 2007-2011 (% , p.a.)	Imported growth in quantity 2007-2011 (% , p.a.)	Imported growth in value 2010-2011 (% , p.a.)	Ranking of partner countries in world exports	Share of partner countries in world exports (%)	Total export growth in value of partner countries 2007-2011 (% , p.a.)
	World 104	189,977	100	2,632	72,180	-4	-14	11		100	-3
1	Italy	50,433	26.5	434	116,205	3	-1	49	3	15.9	3
2	India	30,612	16.1	423	72,369	0	-9	12	1	16.8	11
3	Pakistan	23,869	12.6	751	31,783	-8	-9	-4	4	9	-6
4	China	19,040	10	521	36,545	-21	-28	-25	2	16.2	-14
5	France	18,532	9.8	45	411,822	9	-7	25	6	4.7	5
6	Turkey	8,691	4.6	49	177,367	-11	-22	-12	7	4.3	-8
7	Germany	8,354	4.4	84	99,452	-14	0	6	5	7	-1
8	Mauritius	7,701	4.1	47	163,851	13	18	-18	25	0.3	22
9	Netherlands	6,032	3.2	32	188,500	20	21	42	11	2.2	0
10	Spain	4,711	2.5	53	88,887	4	-1	21	10	2.7	5
11	Viet Nam	2,392	1.3	61	39,213	-10	-9	11	19	0.5	15
12	Denmark	2,119	1.1	20	105,950	20	-7	77	15	1.1	-12
13	Belgium	1,725	0.9	16	107,813	-9	-14	-4	13	1.6	2
14	Sweden	1,073	0.6	5	214,600	141	58	94	17	0.8	2

APPENDIX B

APPENDIX B1 : EMAIL REQUESTING PERMISSION FOR INTERVIEW – FIRST CONTACT

Dear Mr./Ms (name of first contact)

I am Huma Amir, doctoral researcher at the Warwick Business School,
University of Warwick.

For my PhD thesis, I am conducting a research on the relationships between UK importers and their exporting partners from Pakistan. My research is qualitative in nature and comprises of interviews of both importers and exporters to study how first contacts were made and how relationships evolved thereon. It is hoped that this research will shed light on the unique features of trade between the two countries and help build an understanding of the specific attributes that are essential to establish a successful and mutually beneficial relationship. It is with the help of experienced experts like yourself that such an understanding can be acquired.

In this regard, may I please meet you, at your convenience, in order to discuss trade between the two countries and collect information for my research. I do not have a preset questionnaire but will start from general information and search for cues therein. I offer you strict confidentiality and assure you that this research is solely for academic purposes only. The name of the person interviewed or the organization the interviewee belongs to will not be mentioned at any time in my

thesis. Findings will not be finalised until your consent is taken on my understanding of your views.

I request you to please grant me an hour of your valuable time, at your convenience, so that I may start the initial work of my project. I understand that this is a very busy season for you and will be very grateful to you if you could allocate some time to me from your hectic schedule.

I thank you in advance and eagerly await your positive reply.

Yours sincerely

Huma Amir

HUMA AMIR

Doctoral Researcher

MSM, Warwick Business School

University of Warwick

Coventry, CV4 7AL

APPENDIX B2 : EMAIL REQUESTING PERMISSION FOR INTERVIEW – SECOND CONTACT

Dear Mr./Ms (name of second contact),

I am Huma Amir, doctoral researcher at the University of Warwick, Coventry. My PhD thesis is based on understanding the relationships between the UK importers and the Pakistani manufacturers/exporters and in this regard I had contacted Mr./Ms (name of the first contact), the (Designation) of (company name-first contact). Mr./Ms (name of the first contact) strongly recommended (company name-second contact) as his (importer/exporter) in the (UK/Pakistan) and provided me with your contact details.

My research is qualitative in nature and comprises of interviews of both importers and exporters to study how first contacts were made and how relationships evolved thereon. It is hoped that this research will shed light on the unique features of trade between the two countries and help build an understanding of the specific attributes that are essential to establish successful and mutually beneficial relationships. It is with the help of experienced experts like yourself that such an understanding can be acquired. Since I am examining relationships between the trading partners of the two countries it is imperative that I study pairs of traders to get a dyadic view of the import/export scenario.

Due to the qualitative nature of my research, I do not have structured questionnaires but am taking interviews of the pairs on which my analysis is

based. May I please request an hour or so of your time to complete my data collection since I have visited Mr./Ms (name of first contact) and you are his/her trading partner in the UK/Pakistan? I assure you of complete confidentiality of any information given to me and stress that information will be used purely for academic purposes, and will not be disseminated to any other party. Names of the companies that take part in the research will not be used and information that reveals the identity of the firms will be concealed.

I request you to please grant me an hour of your valuable time at your convenience so that I may start the initial work of my project. I understand that this is a very busy season for you and will be very grateful to you if you could allocate some time to my cause in your hectic schedule.

I thank you in advance for your help with my research project

Sincerely

Huma Amir

HUMA AMIR

Doctoral Researcher

MSM, Warwick Business School

University of Warwick

Coventry, CV4 7AL, UK

APPENDIX B3 : INTERVIEW GUIDE

- Nature of business.
- Initiation of business with trading partner.
- Type of relationship.
- Definition of relationship quality.
- Trust: Any incidents of breach of trust?
- Commitment.
- Satisfaction.
- Long-term orientation.
- Benevolence.
- Reciprocity.
- Efforts into building relationships.
- Concern for partner's well-being?
- Sharing of proprietary information.
- Mutual understanding.
- Mutual strategic planning.
- Power dominance.
- Sacrifices?
- Adaptations?
- Timely deliveries?
- Quality issues?
- Communication: Formal? Informal?
- Pricing.
- Ethics.
- Risks?
- Marketing capabilities.
- Informal vs. formal relationships.
- Idiosyncratic investments.
- Value of relationship: Inimitable? Substitutable? Rare?
- Costs: Termination costs? Difficulty of obtaining similar relationship?
- Shared values?
- Cultural differences? Their impact on relationship?
- Country perceptions.
- Consumers' perceptions of 'Made in...'
- Retailers' perceptions.
- Competitors?
- Comparison with competitors.

APPENDIX B4 : DEMOGRAPHIC DATA OF RESPONDENTS

	Units	Age group	Designation	Gender M/F	No. of years with co.	Education	Co. size million £	No. of employees	Year of formation of co.	Partnership length	Exports / imports as % of sales
1	BP1	41-45	Director Marketing	F	15	M.Sc (Management)	70	12000	1947	25	70
2	BUK1	41-45	Managing Director	M	15	A Level + Diploma	23	86	1974	25	100
3	BP2	46-50	Director	M	15	BBA (USA)	50	7000	1987	17	65-70
4	BUK2	41-45	Director	M	17	A Level + Diploma	15	30	1992	17	60
5	BP3	61-65	Director	M	20	Bachelor of Commerce	140	4500	1972	10	70
6	BUK3	36-40	Director	M	11	BSc	20	30	1986	10	90
7	TP1	41-45	Managing Director	M	20	BSc (USA)	90	6000	1973	20	99
8	TUK1	51-55	Sourcing Director	M	20	A Level + Diploma	>100	275	1949	20	90
9	TP2	51-55	Chief Executive	M	11	Bachelor of Commerce	5	250	1998	5	85-90
10	TUK2	41-45	Purchasing & Quality Manager	M	7	A Level + Diploma	5-7	9	1990	5	95
11	TP3	51-55	Chief Executive	M	25	BSc Industrial Mgt	48	>2000	1971	5	80
12	TUK3	41-45	Managing Director	M	9	A Level + Diploma Mkt	1	8	2000	5	70
13	LP1	31-35	Director	M	24	Bachelor of Commerce	6	280	1976	18	99
14	LUK1	51-55	Sales Director	M	35	HND Business Studies	7	40	1961	18	95
15	LP2	51-55	Chief Executive	M	24	BSc	10	200	1989	5	100
16	LUK2	26-30	Accounts Manager	F	5	A Level + Diploma	30	30	1978	5	100
17	LP3	51-55	Managing Director	M	30	Bachelor of Commerce	8	500	1980	10	100
18	LUK3	41-45	Director	M	20	A Level	10	25	1985	10	100

APPENDIX B5 : EU IMPORTS OF COTTON TERRY TOWELS IN 2006-2009 (% CHANGE)

HS6302.60.00: IMPORTS FROM OUTSIDE EUROPEAN UNION: VALUE IN €, US\$, VOLUME IN 100KG, UNIT VALUE IN €/KG, US\$/KG; SORTED BY 2009 VALUE

ORIGINS	2009 Value €	2009 Volume Change	2008 Value Change €	2009 Value Change €	2009 Value Change US\$
EU27_EXTRA	685,405,659	-14.52%	0.47%	-14.53%	-18.78%
TURKEY	252,829,944	-13.76%	-3.16%	-18.92%	-22.95%
CHINA	128,567,588	-28.13%	3.32%	-21.24%	-25.16%
INDIA	110,267,626	25.99%	6.39%	25.06%	18.85%
PAKISTAN	98,099,717	-15.87%	11.61%	-17.30%	-21.41%
EGYPT	34,072,097	-18.47%	4.56%	-10.67%	-15.11%
BANGLADESH	16,785,545	-12.32%	5.45%	-9.02%	-13.54%
ISRAEL	12,779,597	-25.22%	-25.02%	-27.25%	-30.86%
BRAZIL	8,399,624	-45.40%	-21.88%	-40.89%	-43.83%
INDONESIA	8,215,902	-27.99%	-8.30%	-25.16%	-28.88%
COLOMBIA	5,795,974	-23.81%	80.01%	-21.27%	-25.19%
SWITZERLAND	2,535,673	-29.34%	23.22%	-25.51%	-29.22%
THAILAND	1,206,702	34.30%	-60.93%	39.25%	32.33%
VIETNAM	1,154,657	-32.48%	-35.68%	-5.60%	-10.29%
U.S.	584,927	-14.22%	0.15%	-19.61%	-23.61%
EL SALVADOR	548,927	-41.42%	-2.34%	-34.41%	-37.67%

Source: Eurostat
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Printout of Table provided by TP2 as secondary data.

APPENDIX B6 : EU IMPORTS OF COTTON TERRY TOWELS IN 2006-2009 (BY UNIT VALUE)

HS6302.60.00: IMPORTS FROM OUTSIDE EUROPEAN UNION (VALUE IN €, US\$, VOLUME IN 100KG, UNIT VALUE IN €/KG, US\$/KG; SORTED BY 2009 VALUE

ORIGINS	2009 U.V. 2006=100 €	2009 U.V. 2006=100 US\$	2009 U.V. Average=100	2009 U.V. Turkey=100	2009 U.V. China=100
EU27_EXTRA	96	106	100	70	113
TURKEY	99	110	143	100	162
CHINA	117	129	88	62	100
INDIA	102	113	95	66	108
PAKISTAN	85	94	67	47	75
EGYPT	102	113	83	58	95
BANGLADESH	94	104	71	50	81
ISRAEL	85	95	121	84	137
BRAZIL	108	120	169	118	192
INDONESIA	94	104	104	72	117
COLOMBIA	100	111	105	74	119
SWITZERLAND	214	237	541	379	613
THAILAND	105	116	90	63	102
VIETNAM	175	194	149	104	168
U.S.	102	113	124	87	140
EL SALVADOR	87	96	133	93	151

Source: Eurostat
©EmergingTextiles.com (1998 – 2009)

Printout of Table provided by TP2 as secondary data.

APPENDIX B7 : EU IMPORTS OF COTTON TERRY TOWELS IN 2006-2009 (% CHANGE IN UNIT VALUE)

HS6302.60.00: IMPORTS FROM OUTSIDE EUROPEAN UNION: VALUE IN €, US\$, VOLUME IN 100KG, UNIT VALUE IN €/KG, US\$/KG; SORTED BY 2009 VALUE

ORIGINS	2009 U.V. €/Kg	2009 U.V. US\$/Kg	2008 U.V. Change €	2009 U.V. Change €	2009 U.V. Change US\$
EU27_EXTRA	4.41	6.14	-1.19%	-0.01%	-4.98%
TURKEY	6.31	8.77	4.52%	-5.99%	-10.66%
CHINA	3.89	5.41	9.17%	9.59%	4.14%
INDIA	4.19	5.82	0.90%	-0.73%	-5.67%
PAKISTAN	2.94	4.09	-10.91%	-1.70%	-6.59%
EGYPT	3.68	5.12	-7.73%	9.57%	4.12%
BANGLADESH	3.15	4.38	-5.38%	3.77%	-1.39%
ISRAEL	5.33	7.41	-8.87%	-2.72%	-7.55%
BRAZIL	7.47	10.39	-2.92%	8.25%	2.87%
INDONESIA	4.57	6.36	-3.35%	3.93%	-1.24%
COLOMBIA	4.65	6.47	-1.37%	3.33%	-1.80%
SWITZERLAND	23.88	33.20	24.94%	5.42%	0.18%
THAILAND	3.97	5.52	-19.44%	3.68%	-1.47%
VIETNAM	6.56	9.12	47.85%	39.80%	32.85%
U.S.	5.47	7.61	-1.62%	-6.29%	-10.94%
EL SALVADOR	5.89	8.19	-13.51%	11.97%	6.41%

Source: Eurostat
©EmergingTextiles.com (1998 – 2009)

Printout of Table provided by TP2 as secondary data.