

Forming and maintaining cross-cultural interorganisational networks

**Ronel Erwee
and
Chad Perry
Faculty of Business
University of Southern Queensland**

**With contributions by Paula Tidwell
University of South Australia**

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**Correspondence to
Associate Prof Ronel Erwee
Faculty of Business
University of Southern Queensland
Toowoomba 4350 QLD
Erwee@usq.edu.au
Fax (07) 4631 1533**

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ABSTRACT

This research addresses the problem: *How do cross-cultural influences affect interorganisational formation and maintenance international business networks?* In particular, the two concepts of stages of network development and psychic distance in partner selection are explored. A partnership between educational institutions and small and medium enterprises in developing trade relationships in the Asia Pacific region are analysed in depth. This cross-cultural business network did *not* appear to develop through clearly defined, predictable stages and *all* dimensions of culture appeared to consistently influence the networks' development. It seems that personal and business networks are important for both partners (not only for Chinese Malaysians) but if these networks are not consciously linked or expanded jointly, very little basis for cross-cultural understanding is built. An investment in a cross-cultural network should be a multi-faceted and long term financial, organisational and personal investment, which will have to change in ways that are difficult to forecast except to say that they will be needed if the network is not to eventually die.

INTRODUCTION

The establishment of international cooperative ventures by multinational enterprises and the building of external interfirm networks by small and medium enterprises to improve Australian trade with firms in the Asia Pacific region offers increased opportunities for research. Several comprehensive models about global competitiveness (Lee, Tummala & Yam 1996), joint venture management (Naidu, Casusgil & Chan 1996), market entry decisions (Huang 1996) and international cooperative venture formation (Redding 1995; Tallman & Shenkar 1997) acknowledge the roles of these business networks, partner selection and partner-related variables as key components for analysis. Furthermore, Huang (1996) and Kimber (1996) confirm that small and medium enterprises can serve foreign markets by forming networks of firms characterised by interdependence, complementarity, trust and information sharing.

But one relatively unexplored aspect of the development of these business networks across national boundaries is the effects of culture on their development. Thus this research addresses the problem: *How do cross-cultural influences affect interorganisational formation and maintenance in international business networks?* In particular, the linkages between the two concepts of stages of network development and psychic distance in partner selection, are explored. A case study partnership between educational institutions and small and medium enterprises in developing trade relationships in the Asia Pacific region is analysed in depth.

RESEARCH ISSUES

Stages of development of networks

The first parent discipline (Perry 1998a) of this research project is the stages of development of networks. Batonda (1995, p. 3) reviewed the literature about these stages and concluded that it was confusing:

the number of stages in the network development process varied from researcher to researcher, ... [there is no] empirically tested networks stages model and the underlying problem of the concept of predetermined stages in network development is open to tautological challenge. That is, it is not clear whether network development follows stages or other rival theories. Furthermore, none of these studies addressed the strategic issues of power and internal dynamics of networks.

Given this confusion, Batonda *synthesised* the literature into the model of five stages or states of network formation and maintenance shown in table 1. In brief, Batonda (1995) hypothesised that business networks develop over time and that distinct *stages or states* in relationship development between the partners can be discerned. However, the stages do not follow a predetermined sequence, rather, they can be recursive and/or even ‘skip’ a stage. We will his model as a point of departure for this research and attempt to empirically assess its appropriateness.

Table 1 **A Western derived network development stages/states model**

Dimensions	Activities
Stage 1 Relationship searching process	Search & trail for partners Evaluation of partners based on economic & social aspects; no commitment
Stage 2 Relationship starting process	Identification of interfirm & interpersonal dynamics; selective entry based on abilities & intermediate & long term compatibility; defining mutual goals
Stage 3 Relationship development processes	Joint planning efforts; evaluation of relationship for mutual obligations of performance and effectiveness; increase interdependence through enhancement of mutual benefits; value creation through synergistic combination of partner's strengths; commitment of resources & people to relationships
Stage 4 Relationship maintenance processes	Integration of operations and strategies; increased commitment through institutionalised conflict resolution procedures ; long term rewards based on mutual behaviour and trust; adaptations and adjustment through agreement, negotiation & self control
Stage 5 Relationship termination processes	Termination based on mutual interest & cost benefit analysis of continuing in the network; developing strategies to mutually dissolve the relationship

Source: Batonda (1995)

National cultures and psychic distance

Most of the literature about stages of network development is derived from Western sources. Indeed, much research about networks is within *one culture*. Reviewing this type of network research, Erwee (1997), notes that the ‘teamnets’ model of networks that cross conventional boundaries was developed to describe new ways of harnessing the power of creative individuals and groups. This way of working in teamnets emerged in Europe and occurs in both large and small companies, in economies as diverse as Denmark’s or Italy’s and in different industries, for example, textile and tourism. The five network principles involved (unifying purpose, independent members, voluntary links, multiple leaders and interactive levels) were used to develop networks in South Africa.

However, this research project is about networks that cross two cultures. Thus the place of cross-cultural, *psychic distance* between the partners is the second parent discipline of this research project. Culture as a vehicle for understanding internationalisation is noted by Fletcher (1996), Karunaratna, Johnson & Roa (1996), Batonda (1995), Naidu et al. (1996), Tallman et al (1997) and Kimber (1996). Both Karunaratna et al. (1996) and Wu (1995) emphasise that the existence of culture based networks formed by individual relationships *differ between Western and Asian* countries and even between Asian countries like Japan, Korea and China. In Japan, relationships emphasise group loyalty (‘wa’); in Korea, interactions assume that parties are of unequal social stature (‘inhwa’); and in China, ‘guanxi’ denotes a special personal relationship in which long-term mutual benefit between two persons is important.

Cross-cultural differences may be important but their relative impact depends on the stage of development of the company (Adler 1997). The stages of internationalisation of companies are usually depicted as progressing from a domestic phase through an exporter to a multidomestic phase with multinational, global and transnational phases being reached by a relatively smaller number of companies. During the domestic phase companies produce products for local markets and very often do not face intense international competition. These factors negate the company's need to demonstrate awareness of national cultural differences. The ethnocentric attitude of the domestic company is that foreign buyers will be eager to buy the product or service and that no adaptation is necessary. Sensitivity to cultural differences become critical to implementing effective corporate strategies in the multidomestic phases. Companies realise that there are many different markets with unique needs and exhibit a willingness modify their services and products to fit the demands of the diverse foreign markets. Not only are cultural differences important in the design and marketing of appropriate services but the differences become critical in the management of human resources and development of alliances in foreign locations. During the multinational phase an emphasis on cost sensitivity in manufacturing may cause cultural awareness to decline in importance.

Hofstede (1995) provides a generally accepted foundation for understanding culture in cross-cultural research like this. Hofstede (1995, p. 152) defines culture as the ‘collective mental programming of the mind which distinguishes the members of one category of people from another’. Hofstede’s taxonomy of cultural dimensions is:

- individualism versus collectivism - the degree to which individuals are integrated into groups;

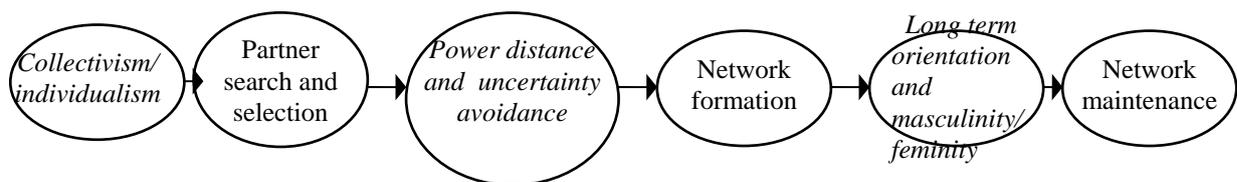
- power distance - the extent to which the less powerful members of the society accept that power is distributed unequally;
- masculinity versus femininity - the distribution of the roles between genders in society;
- uncertainty avoidance - the society's tolerance for uncertainty and ambiguity, and
- long term versus short term orientation.

In turn, the notions of cultural distance (Tallman et al. 1997) or psychic distance (Fletcher, 1996) are based on perceptions which are culturally influenced and reflect the willingness or unwillingness of a business person to undertake business in specific overseas markets due to a perceived divergence between one's own culture and the culture of the partner. For example Redding (1995) notes that overseas Chinese networks are grounded in a cultural legacy containing strong elements of Confucian paternalism, personalistic trust and drivers based on insecurity. This leads the Chinese partners in a business network to negotiate very hard, seek assurance of interpersonal trust and be highly reliant on interpersonal obligation-bonding.

Tentative theoretical framework

The aim of this research is to explore how culture influences the formation and development of cross-cultural network. Based on Batonda's (1995) model of network development and Hofstede's (1995) dimensions of culture noted above, we have developed a tentative theoretical framework about the way in which national culture affects network development, and it is shown in Figure 1. We hypothesise that the stages of partner search and selection depends on how much a business person needs and wants to work with others; network formation depends on how power and control are incorporated into arrangements for the network; and network maintenance depends on how much the partners care for the long term and care for the other.

Figure 1 Initial model of culture and network development (with the five cultural dimensions shown in italics)



To focus our research about the model in Figure 1, two research issues were developed:

1. Does a relationship go through predictable stages or does it shift unpredictably from state to state?
2. Are different dimensions of culture of more importance in on stage or state than another?

METHODOLOGY

Culture is a complex social science phenomenon and so an *interpretive* social science technique is required to explore alternative frameworks of meaning and causation. Researchers must explore meanings rather than make measurements: reality must be viewed through 'its participants' accounts of it' (Redding 1992, p. 347). Thus this research uses the case study research methodology (Perry 1998b). In particular, the case study methodology is appropriate for this exploratory research because the situations being researched are contemporary and embedded in contexts where boundaries are uncertain and require multiple sources of data to adequately describe socially constructed meanings (Yin 1994).

Given our development above of Figure 1 and its two research issues, this research follows Yin's (1994, p. 36) recommendation that 'theory development prior to the collection of any case study data is an essential step in doing case studies' and researchers should then check initial ideas against case data to build a theory. Thus the prior theory from literature will inform the interview protocols used to collect the data for the cases.

The Australian research team conducted the interviews in Australia and in Malaysia. To triangulate findings, two interviews were done with an Australian educational institution and three interviews with their Malaysian counterparts. Usually, the interviews were conducted by two or three researchers. For confidentiality reasons, the organisations are not named in this report. The interview protocols included the following questions covering the two research issues.

Research issue 1: Does a relationship go through predictable stages or does it shift unpredictably from state to state?

- How was the link *started* and how has it been *maintained* since then?
- When was the link *first considered? Started?* Could you draw a graph of activity versus time of the life of the link
- Can you *categorise* the life of the link into certain *periods*, in the above figure?
- Have there been occasions that the business link has been *strained* - why did this occur?

Research issue 2: Are different dimensions of culture of more importance in one stage or another?

- What is it like working with an *overseas* organisation and its people? What are the differences in *business customs & practices*?
- How have these differences changed over the life of the network?

RESULTS

In this section, the interview data for each question is analysed to discover patterns in it. Quotations are used to illuminate our interpretations.

Research Issue 1: Does a relationship go through predictable stages or does it shift unpredictably from state to state?

Who was the initiator? Does a dominant partner initiate the network by starting to search for a partner? There were discrepancies between the interviewees about the initiators. The

Malaysian interviewees argued that their visionary leader and his partner identified needs of Malaysian students during 1985 to 1986 and were instrumental in establishing an institution as private provider of education. Thereafter an Australian agent of an educational institution contacted the Malaysian visionaries. In contrast, the Australian interviewees argued that it was an Australian representative with a vision of distance education that searched for a partner, discovered the Malaysian private provider and initiated a twinning agreement. Both sets of interviewees confirm that a very loose arrangement was negotiated and a recruiting office was started in a Malaysian institution to enrol students in the Australian institute.

What were the reasons for initiating the network? The reasons for starting a network can range from a search for superior technology, through greater access to markets, to mutual trust (Huang 1996; Tallman & Shenkar 1997). Reasons provided by our interviewees were that influential partners with personal contacts through knowledge of local market and with a *vision* of the future and realisation of mutual benefits negotiated tentative agreements during informal discussion sessions. A personal search by both partners based on *business needs* led to the tentative relationship and both partners based the relationship on trust at face value. For example, one Australian interviewee stated that the reasons were new markets for Australia, that the Australians could assist in overcoming weaknesses in the Malaysian institution, foreign exchange could be generated and that the Malaysian institution had a "positive reputation" and a business outlook.

What were the perceptions of the other partner? Many discrepancies emerged when perceptions of each partner about the other, were discussed. The Australian interviewees noted that their Malaysian partner had inadequate resources and staff, procedures and policies which led to a poor service delivery to students. The Australian argued that their institution made many concessions such as discounting fees and textbooks. In brief, the Malaysian partner's vision of becoming a university in its own right was questioned and the institution was seen simply as a "*supplier of students*" to the Australian institution.

In contrast, the Malaysian interviewees acknowledged that they had been overwhelmed by the market's response to the venture and did not have resources or a strategy to deal with the situation. However, they voiced their disappointment that the Australian institution did not provide sufficient assistance or resources or acknowledge that the Malaysian visionaries were highly qualified specialists. The Malaysian respondents confirmed their unsatisfied need to be *valued as an equal partner*.

How was the relationship maintained? A Malaysian respondent focussed on the need for collegiate relationships. These relationships between both academics and administrators had their ups and downs and personality clashes occurred at times. However, most role players made an effort to find a person with whom they could cooperate which facilitated building the relationship. Operational difficulties on both sides were acknowledged, information about regulations were traded and a mutual tolerance of each other's circumstances emerged. Nevertheless, this maintenance was inadequate, as will become clear below.

Dynamics. The discussion above was about general principles of network development, but how did they show in particular *stages* of network development, if there were any?

Concerning these dynamics of the network, major discrepancies between the interviewees with regard to their depiction of the peaks and valleys of the relationship can be noted, as shown in the different patterns of Diagram 1 and Diagram 2. Although there was consensus that after the start-up there was a growth phase, there was also a critical period in which the relationship deteriorated. Although most of the interviewees did not demarcate specific development phases or stages and viewed the process as merely having a number of critical points of transition, consider those broad phases as a starting point for analysis.

Growth phase. After the slow start-up period, the years between 1986 to 1989 were generally seen as one of business expansion (growth in student numbers). There was active involvement of both sets of partners that energised the partners and new ideas were implemented. The Malaysian respondents emphasised their institution's competencies and their ability to maintain good quality, to add value to the educational experience of students, and to innovate to increase market share. Their perspective was that they built the Australian institution's reputation in the market: created the success, were reliable, delivered the front line service and met the market's demands. During 1989 the institutional status of the Australian partner changed which strengthened both the Malaysian's and the Australian's reputations.

However competition in the educational market from other Malaysian and Australian institutions escalated. The Malaysian interviewees' perception is that the Australian partner did not sense the competitive pressures or adapt the products or fees to current market needs. The Australian partner was seen as not providing sufficient attention, training or information about its policy changes.

Relationship breach phase. Major discrepancies occur in the partners' perspectives about perceived breaches in the relationship by the early 1990s. The Malaysian respondents note that the Australian partner initiated the breach by two actions - not being flexible in negotiating new terms and negotiating with another potential partner in another part of Malaysia. The Malaysian respondents argue that they accommodated their Australian partner's needs and did not act to threaten the mutual aim to grow and service the market - "our understanding of doing work together in *areas that we agreed, continued to grow*". In contrast, the Australian partners complained that their Malaysian counterparts had an extremely negative reaction to the Australian links with other institutions - "it hit a peak and became nasty" and "They kick up a stink as soon as we go near anybody else.." (see Diagram 2 - stage 5).

Maturity phase. About 1997, all partners see the network as having reached a plateau and growth is slowing down. Two Malaysian partners are concerned about maintaining quality levels and claim that the Australian partners make demands without regard for operational realities. Only one Malaysian respondent claimed that the relationship could expand into doing joint research, exchanging staff members and exchanging students. In contrast, the Australian partners focus on developing relationships with other, more compatible partners and anticipate that the relationship with the current Malaysian partner may be curtailed.

In this section of the interview many subtle statements indicating a potential termination of the relationship were made by both partners. The Australian partners noted a potential threat from the Malaysian partner - "the furore that came back from [the Malaysian partner] saying we'll cut your students out..." and "the very old contract we wanted to re-write it; we still

haven't got a contract.". The Malaysians note that with other institutions "there is a different relationship, they ... look at us as *partners* rather than what we can be used for"; and they wish to act more independently and develop their own capabilities – it would "...probably better if in terms of training for us to run first 2 years [gather than just 1 year] as an internal program".

Research issue 2: Are different dimensions of culture of more importance in one stage or another

In their interviews, the Malaysian partners confirmed the importance of cultural differences - "many relationships are kind of related to cultural relationships ...this is very good .. in terms of creating the kind of understanding to go on". They argue that Malaysians are more culturally sensitive and can analyse Australian practices and accommodate such practices. The Malaysian partners note that communication in English could be a problem "...I'm never sure whether ..I would offend an Australian". But business practices also differ "I was writing angry notes... why can't you answer me on this". Australians' attempts to understand Malaysian culture are appreciated. Understanding the differences means immersion for a period in another culture and assumes that there will be bilateral movement to create understanding.

Similarly, the Australian view was that many differences emerged during negotiations such as "It is the Chinese way of saying we are moving on" and "They've made a decision alright, they want you to come back with something. They have told you what they want , they want you to agree with it". The Australians admitted that they were unsure in some specific situations - " we needed the strength to say no in a nice as possible way so that both sides never lost face", "we didn't want to be rude but we weren't firm". Their perception was that their Chinese counterparts were hard bargainers and that signing a contract with Chinese is "sometimes a waste of time because they'll sign easy and [then] they will say 'how are we going to make it work?'"

In more 'Hofstedian' terms, Malaysian respondents made statements such as the following, and so show that the five dimensions of culture have an influence throughout the life of the network and not just at one stage:

- During early positive phases of the relationship, "when trading partners or two different organisations work together they think of each other as colleagues and as one" reveals *collectivism*.
- About the reasons for partner selection " if you say you need our help we will come to you" and "although you don't want anything out of us ...because you'd have gone" can reveal both *collectivism* and *long term orientation*.
- To build the reputation of the institution in the early phases "They actually look at the reputation of the university, who do they speak to ... people with authority who is confirming that yes, you will get pay backs" reveals moderate *power distance* and *uncertainty avoidance*; but "because you got to just let go and say I have to trust what he says or she says on the other end because I'm not there" can indicate a *low power distance* and *uncertainty avoidance*.
- On the development of the relationship "we have never been in a great conflicting scenario.. we walk together .. and it is a gentlemen's relationship" reveal *collectivism* and *uncertainty avoidance*.

- About forming networks between new partners during later phases - "People who will be in touch with you for the rest of your life ... You must know today and tomorrow and for a long time to come" can be interpreted as *collectivism* and *long term orientation*.

Moreover, the Australian respondents consistently used given names to refer to their Malaysian counterparts (*individualism*) whereas the Malaysian respondents used family names and titles (*collectivism and power distance*). The Australian respondents noted the individual actions and initiatives that were taken by specific role players during the project and were proportionally more self-referencing ("I" statements - *individualism*) were made. There was very little indication that the Australians acknowledged the Malaysians as equal partners. These respondents highlighted their critical appraisal of the deterioration of the relationship and were more overtly sceptical of the long term continuation of the project (*individualism; short term orientation*).

DISCUSSION

Research issue 1: Relationships shift unpredictably from state to state

In this research discrepancies continuously arise between the interviewees about most of the research questions. The partners' views of the start, development and maintenance of the relationship contradict each other. This may be a result of the gradual dissolution of the partnership or a result of a comparison between the unsuccessful relationship to more compatible partnering experiences. It is therefore difficult to draw concise conclusions about the research questions but the findings do indeed confirm the dynamic and evolving nature of business relationships.

This finding about the complex development of a cross-cultural relationship *contrasts* with the model of clear cut stages in the development of a relationship in Western networks shown in Figure 1. The respondents can identify time periods with unique characteristics or events, but these stages are not clearly demarcated and vary from respondent to respondent.

Stages or states in the relationship. Consider the stages in Table 1 in more detail. In the first stages, there was indeed initial commitment of resources and people to the relationship. However, there was little evidence of a careful analysis and selection of partners, adequate clarification of mutual expectations, regular role negotiation, a positive evolutionary process of joint planning efforts, constant evaluation of the relationship or attempts at value creation through synergistic combination of partners' strengths. Early warning signs of incompatibility between the partners such as discrepancies in expectations and responsibilities were overlooked.

There was a paradox in the partner's perspectives of each other. Initially the Australians were the dominant partner in terms of their resources and experience in distance education; although the Malaysian partner developed its own capability, it was not recognised as an equal partner. There were almost no references by either partner to recognising their increasing interdependence, integrating operations and strategies; increasing commitment through institutionalised conflict resolution procedures, establishing long term rewards based on mutual behaviour and trust or adaptations and adjustment through agreement and negotiation.

The relationship gradually deteriorated as the partners each established links with other institutions. However, there was no reference to a cost-benefit analysis by either partner of continuing in the network or of developing strategies to mutually dissolve the relationship.

In conclusion, these results support Batonda's (1995) the notion that cross-cultural business relationships evolve through unprogrammed, dynamic *states* rather than a sequential linear progression of clearly defined and predetermined *stages*. The implication of this finding for international marketing policy, practice and training are that flexibility and in-depth understanding should be the cornerstones of network development.

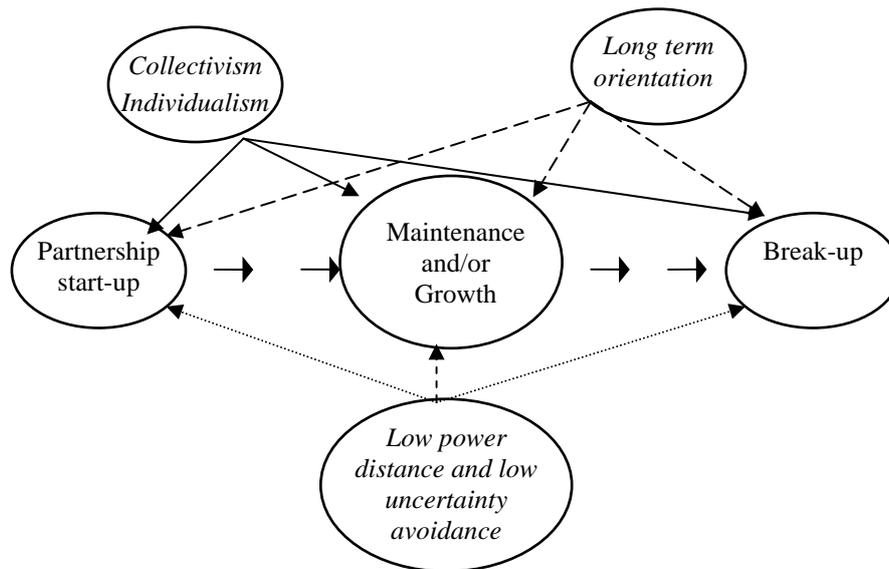
Research issue 2: Dimensions of culture operate across states in the relationship

Analysis of the interviews according to Hofstede's model indicates that many examples of individualism or collectivism, high or low power distance, high or low uncertainty avoidance and short or long term orientation could be identified. These dimensions were more easily distinguished in the interviews of the Malaysian respondents rather than those of the Australian respondents, but cross-cultural difficulties were apparent on both sides. The Malaysian partners in this research initially confirm that "many relationships are kind of related to cultural relationships" ... They argued that Malaysians are more culturally sensitive and can analyse Australian practices and accommodate such practices but clearly there is a limit to such accommodation. In brief, the interview data indicates that dimensional gaps between Australian and Malaysian partners in the educational institutions did exist but were not effectively identified, acknowledged or bridged during the lifetime of this relationship.

Furthermore the cultural dimensions did not cluster in specific phases of network development as we had hypothesised in Figure 1. For example, statements reflecting collectivism by Malaysian respondents occurred throughout interview and did not only emerge during the descriptions of partner search and selection or the start-up phase. Long term orientation was evident at the start of the network as well as during its maintenance. When allied with the confusion about how a network grows identified in research issue 1 above, this imprecision about the influence of Hofstede's dimensions on the stages suggests that the two are related in a complex way that has not been addressed or mapped in the literature.

A model of this complexity is shown in Figure 2, with all the cultural dimensions impacting on all states of the relationship. Partners have to incorporate an understanding of all dimensions of culture into all the changes in a relationship because all dimensions operate consistently during a network's life. In this higher education partnership, a mutual cross-cultural understanding did not evolve over time and so it did not grow smoothly.

Figure 2 Complexity of Hofstede's dimensions of culture during the life of a network



CONCLUSIONS AND IMPLICATIONS

In conclusion, this research confirmed that cross-cultural business network do *not* appear to develop through clearly defined, predictable stages. Moreover, it made a contribution by showing that *all* dimensions of culture appeared to consistently influence a networks' development. The gradual dissolution of this educational partnership contributed to an undermining of trust between the partners and will probably have a negative effect on future links with wider networks. It seems that personal and business networks are important for both partners (not only for Chinese Malaysians) but if these networks are not consciously linked or expanded jointly, very little basis for cross-cultural understanding is built.

The implications for managers in both countries are clear. They must be aware of cultural differences and try to understand them even though, or because, their perceptions of what is happening in the relationship in a particular period can be significantly different. However, they must not allow an understanding of national cultural differences blind them to an understanding of the particular needs of individual persons and institutions. An investment in a cross-cultural network should be a multi-faceted and long term financial, organisational and personal investment, which will have to change in ways that are difficult to forecast except to say that they will be needed if the network is not to eventually die. Training of managers should concentrate on the dynamics and complexity of cross-cultural relationships over its life span, and the need to bridge cross-cultural perceptions and communication gaps.

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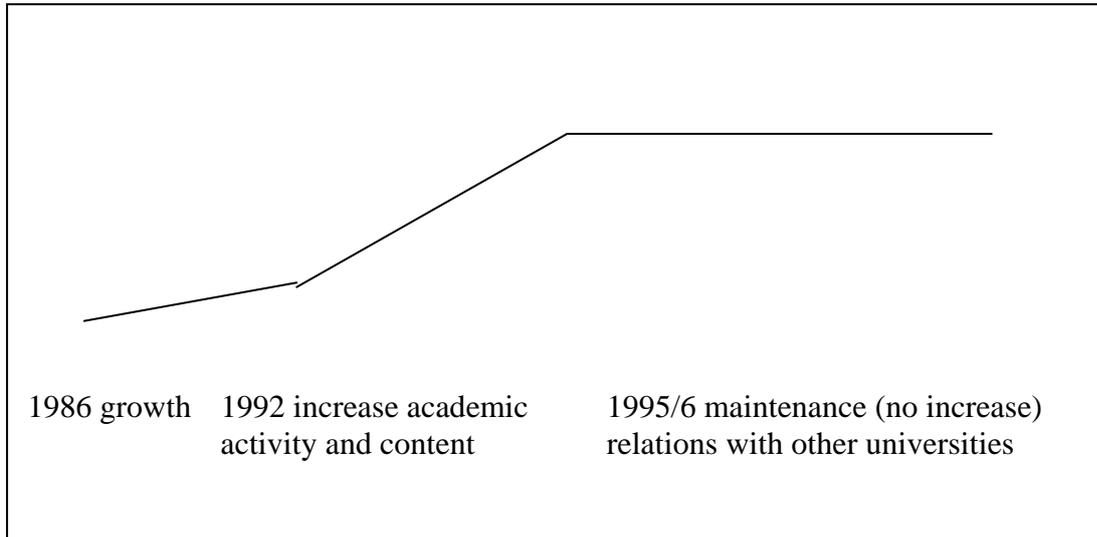
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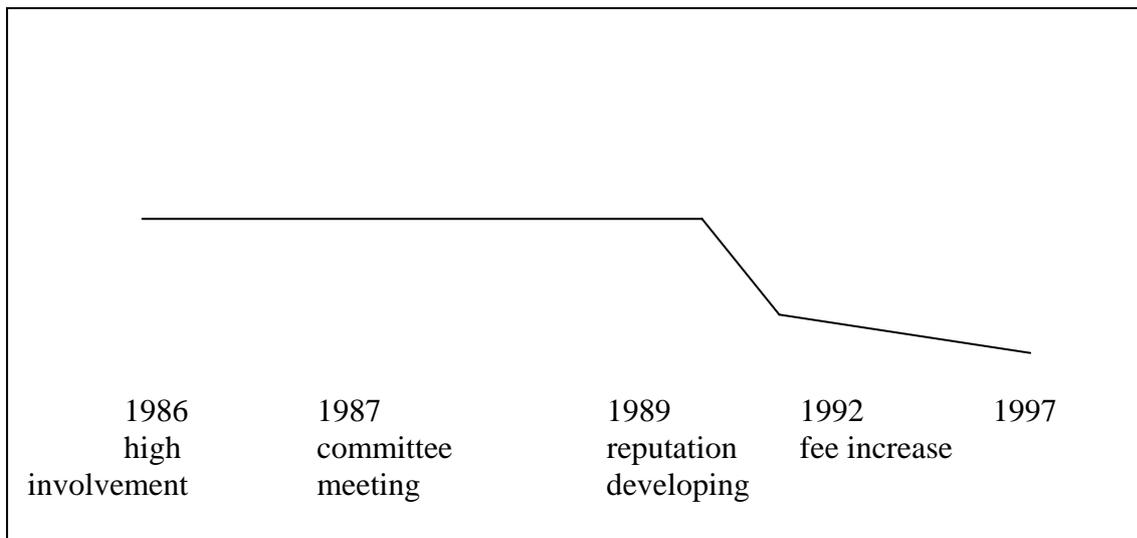
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Diagram 1 Perceptions of activity on the relationship versus time.

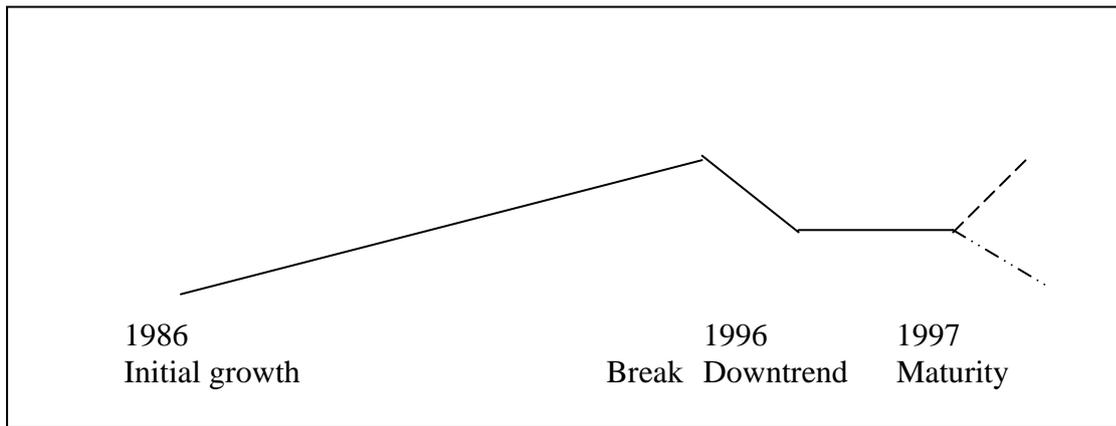
Malaysian respondent 1



Malaysian respondent 2



Malaysian respondent 3



Australian partner 1

