

Diagnostic Tool for Rating Suitable Partners in Licensing Agreements

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Abstract

This paper is part of a longitudinal research project. The key issue of the process of selecting suitable partners is discussed in its relevance to companies applying relational practices to licensing strategies. The applicability of the interaction approach and the effectiveness of relational practices are tested in their ability to initiate, develop and maintain these collaborative arrangements in an international context. The discussion takes into consideration the constraints to the applicability of relationship management practices in that context, and recommends a diagnostic tool to measure prospective licensees against in order to select them as business partners. The literature addressed includes that on entry modes and relational approaches in an international context. The paper uses a case study approach to investigate the issues identified. The firm that will provide the case study is a UK SME specializing in the development of chemical products. The company has used licensing as its primary strategy for international expansion. The research project is partly funded by the UK government. Relational practices are essential to create the level of trust required for initial information exchanges. When applying them in new remote and culturally distant markets, these techniques need to be adapted to the local culture. In deploying a licensing strategy, building a successful relationship requires the selection of the "right" licensees, able to engage in complex interaction. We propose a diagnostic tool which we call licensee evaluation scorecard (LES) which has this very function. The contribution of the research is to refine the current criteria used by companies, and recommended by literature, to select prospective parties to licensing and franchising agreements; and further refine the thinking on how relevant relational approaches are to the creation and later management of these relationships.

Keywords

Interaction; Partner selection; international relationship marketing; entry strategies; licensing; collaborative arrangements

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Introduction

This paper deals with the topic of commercial partner selection in foreign markets, and proposes a diagnostic tool to rate potential partners according to their attractiveness. Selecting partners for a collaborative arrangement such as licensing is a critical decision in entering international markets. Collaborative arrangements have a high likelihood of failure if not properly conceived and managed (Dacin, Hitt and Levitas, 1997).

This research addresses this issue and investigates processes by which a company can initiate a relationship and establish trust, and exchange the information required to select the appropriate partner. The discussion takes into consideration the difficulties and constraints to relationship building in a global context, where relationships characterised by trust and effective communication need to be established with businesses across different cultures. This is an under researched area.

This research takes as a context the international business to business market for chemical products supplied to the building, construction and maintenance industry. We use as a case study a manufacturer of chemical products based in the South East of the UK to produce recommendations for best practice in the selection of appropriate partners to licensing agreements. The paper proposes a diagnostic tool to measure prospective partners against set criteria.

The success of the company used in our case study depends largely on their ability to select the most suitable partners to its business in the selected markets; and to effectively manage them in order to maximise their performance. The problem faced by the company is that since the strategy

involves local manufacturing by the business partner under license, the business model requires a high level of interaction with their business partners. Success factors include the establishment of resource ties, for example the selected commercial partners need to invest in specific machinery, and hence need a robust financial position and specific technical knowledge to operate that machinery; there is also a need for specific activity links, for example including joint marketing activities and training of personnel. Because of this, the selection and appointment of the appropriate commercial partner is a vital critical success factor.

This paper builds on existing research on the issue of partner selection and suggests ways to apply relationship marketing practices to this specific task. The diagnostic tool we propose offers the feature of quantitative measurement scales that enable the licensor to compare between potential licensees. It is suggested that the criteria built in this instrument address the general problem of selecting suitable commercial partners for international collaborative arrangements; because of this, the paper proposes an extension of the theory of partner selection and of International Relationship Marketing. The paper is also the starting point of a longitudinal study which will track the performance of the selected partners and hence LES' effectiveness.

Market Entry Strategies

The range of market entry modes available to firms entering foreign markets can be grouped into two broad categories: hierarchical equity modes, where a firm makes a direct equity based investment in a target market; and export or non-equity modes, where a firm enters markets using intermediaries. Examples of these are agents and distributors, and although they represent a less demanding entry mode, they present great limitations in terms of control and flexibility (Cavusgil, Yeoh and Mitri, 1995). Although it may be argued that they afford a tighter control and a better protection of their proprietary know how (Brouthers and Nakos, 2004), hierarchical entry modes are not always superior to non-equity entry modes. This is due to the impact of integrating foreign markets operations on a firm's internal costs (ibid). Because of this, it can be argued that non equity modes are generally more suitable to small and medium enterprises (SMEs) with limited resources. Non equity entry modes include various types of collaboration with intermediaries based in the foreign target market. Intermediate modes (Hollensen, 2004) are entry modes that incorporate some of the characteristics of both hierarchical and export modes, e.g. they allow a higher level of control than export modes, and are less capital intensive than hierarchical equity modes. Intermediate modes include forms of collaboration such as licensing and franchising. These forms of collaboration are generically referred to as collaborative arrangements (Daniels and Radebaugh, 2001, p. 12).

International businesses have been increasingly using collaborative arrangements, such as licensing and franchising (Townsend, 2003). Licensing is the exchange of technological know-how and other intangible assets in return for fees/royalties (Johansson, 2005). Franchising additionally adds to the above a complete business package to include marketing support services, training and finance (Kotler and Keller, 2006) for an initial fee and a royalty percentage of franchisees' total sales (Hollensen, 2004). Licensing and franchising can be considered strategies that foster medium to long term relationships. The interaction approach is the correct intellectual framework to describe these relationships, since they feature complex activity links and resource ties.

Partner Selection

The longevity and stability of the collaboration with licensees is an essential success factor for a licensor in their selected markets (Catulli, Annia and Ingleby, 2006). The selection of the right partner is essential to the success of the relationship (Håkansson and Ford, 2002). When this selection is made hastily principal companies are frequently disappointed with their partners' performance (Cavusgil, Yeoh and Mitri, 1995) when the relationship does not actually fail and dissolves (Tatoglu, 2000). Finding good foreign partners is difficult, time consuming and skills intensive (ibid). A proactive screening process is therefore needed for the selection of the licensees (Cavusgil, Yeoh and Mitri, 1995; Rich, 2003) to avoid failure of the relationship (Dacin, Hitt and Levitas, 1997).

It follows therefore that the management of the company should devolve adequate resources both to the selection of a suitable partner; and to developing and nurturing the relationship with its partners. Prospective licensees (where this arrangement is being used for a "nationwide" representation) need to be selected against a set of exacting criteria. This concern with selection is particularly relevant to the company in question, as it uses licensing as an entry strategy in target country-markets. The licensees appointed are responsible for the market penetration of the company's range of products. If the licensees are not effective in their sales and marketing effort, then the company cannot be successful in achieving their business objectives. It follows that the ability to select the most suitable prospective licensees is a critical success factor for this company. In other words, the

view we take here is that one of the strategies to ensure that a relationship starts and develops successfully is to select the most suitable partner in the first place. Limited research has been carried out on the criteria for the selection of prospective partners. In particular, we found research focuses on diverse types of relationships, e.g. joint venture (JV) partners, parties to strategic alliances (SA), distributors, while no research was found examining the selection criteria for licensing partners, although a study was identified which focused on franchisees selection. Bearing in mind this limitation, a variety of lists of criteria has been selected which aims at selecting the “right” partner. Some of the proposed models are country specific, as it is some times necessary to account for the political environment of a specific country; therefore the partner needs to be on good terms with the local government (Tatoglu, 2000).

Table 1: Selection Criteria for Prospective Partners

Factors Cavusgil, et al., 1995	Factors Dacin, et al., 1997	Factors Glaister and Buckley, 1997	Factor Rich, 2003	Factors Doherty and Alexander, 2004
Product factors	Technical skills; technical complement	Technological know-how	Complementary resources and skills	Balance of power of principal partners
Marketing skills	Market knowledge / access	Large partner with distributive access	Skills	Retailing skills
		Official access	Industry knowledge	Local knowledge – knowledge of specific market segments
Financial and company strengths	Financial assets	Management, Experience and financial assets	Financials	Financial stability – availability of capitals
Commitment	Partners’ expectations, motivation			Motivation, commitment
	Complementary skills			Similar values
	Compatible goals, complementary strategic orientation		Compatible objectives	Strategic alignment (strategic partnership)
	Cultural heritage		Willingness to ally with each other	Partners hold desirable retail sites / position
Facilitating factors	Partnering skills (previous alliance experience)	Access to labor, access to local brand name	Organizational culture and processes	Like-mindedness
	Intangible assets (reputation, brand name, human resources)	Highly regarded form with links to major buyers	Resources	Chemistry / feeling
	Ability to acquire skills (corporate learning)		Training to develop new culture	Support / trust

The literature distinguishes between *task* related and *partner* related dimensions, where partner related criteria are more appropriate when the partner needs to collaborate with additional partners in the target market (Geringer, 1991). This distinction was found to be applicable to relationships other than JVs (Wang and Kess, 2006). This, confirmed by some empirical evidence, is the reason why in this paper, we adopt as a reference models proposed by studies on JVs, SAs, distributor relationships and franchising. In our paper we make reference to 5 main models,

DISTEVAL, a comprehensive selection tool available as an expert system and proposed by Cavusgil, Yeoh and Mitri (1995) and designed to select distributors. The second model, proposed by Dacin, Hitt and Levitas (1997) is proposed to select partners to international SAs; the third model, proposed by Glaister and Buckley (1997) is a hybrid task-related / partner related model proposed to select JV partners. The fourth model, proposed by Rich (2003) also focuses on SAs; finally, the model proposed by Doherty and Alexander (2004) addresses the selection of international franchising partners. Table 1 shows a simplified summary of the proposed selection criteria from the 5 models and shown in order of equivalent factor in order of comparison, and to show that similarities exist between these models.

The models are all suggested to aid a successful selection of appropriate partners. The authors feel that the models depicted in table 1 are all very relevant in spite of the first three being several years old. They also are heterogeneous and serve diverse needs, e.g. Doherty and Alexander's (2004) model is suitable for the retail sector, while Rich's (2003) model suit industrial markets and Glaister and Buckley's (1997) model is applicable across a range of contexts, including different countries and industries (Glaister and Buckley, 1997). In selecting partners for collaborative agreements and alliances, companies give weight to different criteria depending on their country and business culture (Dacin, Hitt and Levitas, 1997). In effect, different weights attributed to these factors by different analysts limit the effectiveness of these selection models.

The objective of our study is to design an instrument that encapsulates all the factors included in these models, and at the same time is easy to operate. The instrument also needs to allow for quantitative measurements to enable comparison of the prospective partners. The proposed tool tries to address these requirements. We propose a hybrid and highly simplified model to match the company's specific needs as described below. This model is part of the contribution of our research. The required tool is one that allows consistent quantitative rating of potential partners, while at the same time allowing for some degree of flexibility for qualitative decision criteria. Another issue is whether task – oriented or a partner oriented set of criteria should be selected. Our model addresses both types of criteria. We take Wang and Kess' (2006) view that these criteria would apply to a variety of partner types, including JV partners, distributors and licensing partners.

The information required to fulfil the above models for the selection of a partner in a foreign country is complex, comprehensive and mostly of confidential nature. The literature on partner selection cited does not address this point, nor does it address what research instruments are to be used to gather the necessary information to fill in the decision criteria. This requires complex interaction and the ability of the potential licensor to build interaction, relationship and trust with companies based in other countries and from different cultural backgrounds. This creates a need for a solid understanding of interaction in a multicultural context.

Understanding interaction

The interaction approach, emerged in the 80's, was conceived as a better way than antecedent transactional models to describe the interaction between suppliers and buyers in a business to business context. In contrast with the dominant paradigm, the marketing mix which had been first postulated in the 60s by McCarthy, the interaction approach suggests a two way model of business interactions. The theory suggested that episodes of buying behavior were part of relationships, and that the suggestion of a "unilateral" nature of business transactions was not helpful. Business transactions occur between two parties of a dyad (Ford and Häkansson, 2004) which are interlocked in a relationship. Relationship marketing emerged as a particularly successful off shot of the interaction approach (De Wulf et al, 2001; Nancarrow, Rees and Stone, 2003; Lemon, White and Winer, 2002). It is based on the development of a dialogue between a business and its customers, and is characterized by the attempt to learn and understand each other's needs rather than a communication exchange based on the attempt to persuade and manipulate (Grönroos, 2000). Other cornerstones of relationship marketing are a long term orientation (Grönroos, 1994; Reichheld, 1996; Jackson, 1994; Ahmad and Buttle, 2001) and the importance of trust (Selnes, 1998), which is held to be an essential ingredient in facilitating the exchanges of information required to build the relationship.

Applicability of the Interaction approach in a global context

Relational practices are currently considered to be the "default" approach to marketing strategy in a business-to-business context (Grönroos, 1994; Mudambi and Mudambi, 1995). This widespread application, however, needs to be viewed with a degree of caution, for, as O'Malley and Tynan (1998) observe, there has been a tendency to approach the relationship paradigm without sufficient critical analysis. In addition, concerns have been raised (e.g. Palmer, 1997; Conway and Swift, 2000) about the feasibility of the uniform implementation of relational business practices across different international markets. These constraints to relationship building would be a problem for the

company in question as their business model is deliberately fairly standardized. Relational practices are difficult to implement in heterogeneous markets (Erikson and Mattson, 2000). Relationships are conditioned by the cultural context in which it takes place (Palmer, 1997).

Psychic and cultural distance is a constraint to relationship building (Conway and Swift, 2000). Psychic distance is a consequence of cultural and social distance, where cultural distance is defined as the “extent to which the norms and values of the two companies differ because of their national characteristics” (Ford, 1984, p. 102). In several business cultures the trust which is an essential component of an Interaction approach is developed by means of face-to-face rituals (Palmer, 1997). This is the case for high context cultures, defined as those cultures where communication has implicit contents and emotional values (Hall, 1960, 1976, in Usunier and Lee, 2005). The need for an implicit, non-verbal content in the communication process in high context cultures would create difficulties in implementing personalized, non personal communication (Usunier and Lee, 2005; Catulli, Lavergne and Smart, 2006), i.e. communication which does not involve personal contact. Face to face contact would also be necessary in high femininity and high uncertainty avoidance cultures, where business is associated with caring face to face communication and risk is reduced by cultivating relationships (Hofstede, 1980a, 1980b, 2001; Batonda and Perry, 2003).

On the contrary, westerners tend to be more businesslike because of a higher level of masculinity (Batonda and Perry, 2003). All this seems to point at the possibility that standardized business models such as franchising and licensing need to be supported by “ad hoc” face to face communication in some countries because of the characteristics of their culture, rather than being “managed at a distance” using personalized, but non personal (i.e. face to face contact) communications such as direct mail and internet supported communication (Catulli, Lavergne and Smart, 2006).

The development of trust is also made harder by communication barriers created by cultural distance and languages (Conway and Swift, 2000). A positive relationship atmosphere can be difficult to create when the interaction takes place between people from different backgrounds, cultures and expectations (Leonidou, Katsikeas and Hadjimarcou, 2001). There are also cultures where business ethics do not require necessarily a win-win situation, and it is seen as natural when one of the parties to a transaction seems to be seeking a better return than their counterpart (Palmer, 1997).

A further constraint to the implementation of interaction approaches is the diffidence which exists between parties belonging to different cultures. This is even more so when the mutual feelings between the parties are affected by *Consumer Animosity*, negative attitudes towards products or companies belonging to a particular country stemming from political, economic and military unrest (Amine, Chao and Arnold, 2005). One example is the animosity generated between the USA and France over the invasion of Iraq in 2003. Consumers see sellers from other countries as more (e.g. the US, the Danes, the Dutch) or less (Russia, China, France) trustworthy (Conway and Swift, 2000).

Country of Origin (COO) effects also plays a role in constraining the implementation of IRM. COO effects are defined as information on a product's country of origin (Zhang, 1996; Amine, Chao and Arnold, 2005). In customers' minds, a product or service is associated with a stereotypical image of the country of origin: e.g. Italy as a producer of wines, France as a producer of fashion products. This image reflects on the product, and influences buyers' decisions (Darling and Puetz, 2002). Prospective commercial partners affected by a negative COO could be biased against entering a relationship with a supplier perceived to have the characteristics of the country or origin.

COO effects extend beyond products and services, and include customers' attitudes and expectations towards marketing, communication strategies and general business practices associated with a country (ibid). The implications of all the above for the company in our case study is that the partner selection process adopted needs to address the above discussed issues in order to build relationship and trust with prospective partners. This means that time will have to be invested in building relationships with prospective partners in order to administer the research instruments designed to deploy our diagnostic tool.

Notes on Methods

Our research uses a case study methodology to investigate the issues identified. This is a type of inductive method requiring a holistic approach to data collection (Ahmad and Buttle, 2001) which involves investigation and analysis of phenomena within their real life context (Perry, 1998) and offers the opportunity to analyze critical incidents that determine a course of events within the context of a longitudinal study (Perry, 1998; Meredith, 1999; Tikkanen and Alajoutsijärvi, 2002). This research method was chosen as it offers the possibility to generate rich contextual data to build theory (Eisenhardt, 1989)

The firm that will provide the case study is Catomance Technologies Ltd (CTL), a UK SME specializing in the development of chemical products. The company has been operating in the road repair industry for several years, having developed an instant and permanent road repair compound marketed under the Emcol IRR brand. The company has used local manufacturing on license as its primary strategy for international expansion. The research is part of a UK Department of Trade and Industry funded research program¹ involving the university and the firm. The company supplies a chemical catalyst to the locally based licensees. The catalyst is mixed with locally sourced aggregate and packaged, so that it is ready for use to repair potholes and other damage to roads, car parks, run ways, etc. The reason for the selection of a licensing strategy is that it has economical and practical advantages: for example, local manufacture of the products reduces transport costs. The system also allows for a fast market development without the need for capital investment. This confirms Tatoglu's (2000) suggestion of faster entry and reduced risk as a motivation for companies to choosing collaborative arrangements. The company is present in 25 countries in diverse regions of the World, in virtue of a network of the same number of licensees. This has implications for the constraints experienced in interacting with prospective partners in what are very diverse markets, as the company is working to extend its network.

Case study methodology uses multiple sources of data (Perry, 1998). The research instruments used as part of the case study research method include the use of secondary sources such as financial records, meeting minutes, memoranda, business plans and secondary data tracking the licensees' performance over time. Primary data include qualitative interviews of the company personnel. Although regarded as a valuable method (Glaser and Strauss, 1967; Yin, 1981; Eisenhardt, 1989) there are necessarily concerns over the 'generalisability' of the findings particularly when only involving one firm. We acknowledge this view and will therefore use the case study as part of a two stages research process: the rating method proposed by this paper will form the basis of further research conducted across a range of firms and industry sectors.

Proposed diagnostic tool

Based on the initial theoretical research – in particular with reference to the five sets of criteria for partner discussed above - and subsequent empirical research the authors propose a multi-criteria diagnostic instrument which is summarized in table 2. Our tool includes partner-related as well as task-related dimensions, in keeping with the set recommended by Glaister and Buckley (1997). The instrument is used to identify and select the most suitable parties to a licensing agreement. This diagnostic tool, entitled Licensee Evaluation Scorecard (LES) is used as the basis for a questionnaire which the company in question administers to prospective licensees in the course of preliminary negotiations. The instrument is summarized in table 2. Balance of Power refers to the relative size of the two partners and the importance given by both to the relationship; a power imbalance would render the relationship unstable.

Marketing skills are relative to the ability of the prospective licensee to promote the licensor's products. It refers to selling and communication as well as planning skills; Market position is linked to marketing skills; the company need to be associate with road building, repair and maintenance in the target market for the relationship to work. Technical Skills refer to knowledge of road building technology and the capability to manufacture the product. This involves the ability to invest in the appropriate machinery. Market Knowledge and Access refers to knowledge of the specific industry of interest – road repairs. In this case this factor is very important as end buyers often are local authorities. Financial Resources and Stability is self-explanatory, however in this particular case the prospective licensee needs to be able to invest in the necessary machinery. Commitment and Motivation is linked with Strategic Alignment. It has to do with the role of the licensor's offering in the prospective licensee's business plan, which guarantees full commitment.

Compatible Corporate Culture and Chemistry refer to how the two companies can work together. It is true that trust accrues with time; however trust needs to be built on the said compatibilities. Partnering Skills refer to the ability to communicate and exchange information. Part of the implications of this is that the company's personnel need to be able to communicate with a good standard of English or French – the two languages spoken within the company. Willingness to Support Staff Training and Ability to Acquire Skills both refer to the ability of the company to facilitate knowledge transfer, so that the licensor's technical and marketing knowledge can be transferred to the prospective licensee. Finally, Intangible Assets have to do with the reputation and brand equity of the company in the target market, which would facilitate market success, and the abilities of the staff. A questionnaire has been

¹ This type of programme is called a Knowledge Transfer Partnership (KTP) and is a vehicle to bring universities and local businesses together.

designed that surveys each of the areas of investigation with any potential partners the company approaches. As a result of the administration of the questionnaire, each of the companies surveyed is given a rating in each of the factors. Each of the factors has been given a weight depending on the perceived needs of the case study company. These weightings were agreed with the company's management at several meetings, and were tested in the piloting stage of LES. The reason for these weighting is that it was deemed that some factors, e.g. marketing skills, could not improved by CTL, while other, e.g. technical skills, could be supported by CTL trough training. A rating sheet was designed, see Table 3, where the scores could be entered and produce a weighted rating. The potential partners in each country can thus be compared to each other in respect to their relative rating in each of the factors.

Table 2: Licensee Evaluation Scorecard (LES)

Factors
Catulli, Annia and Ingleby (2006)
Balance of power principal – partner
Marketing skills
Technical Skills
Market knowledge / access
Financial resources and stability
Commitment / motivation
Compatible corporate culture
Strategic Alignment
Market position
Chemistry
Trust
Partnering Skills
Willingness to support staff training
Intangible assets (reputation, brand name, human resources)
Ability to acquire skills (corporate learning)

Source: The Authors

Empirical Support for LES

According to Mike Woods, CTL's Managing Director, prior to the introduction of the Licensee Evaluation Scorecard, the process of selecting parties to the licensing agreement was ad hoc, unstructured. The need for a partner evaluation instrument was prompted by a requirement for a standardized, consistent process, so that companies with the same appropriate characteristics, and success factors, were consistently selected in different markets. The idea was to avoid reinventing the wheel each time when approaching new markets (John Hayes, Marketing Director, CTL). We recognized we had a non scientific approach (...) we realized we were not converting as many prospects as the business demanded (Woods). One of the objectives was to formalise the business model, and have a tool that enabled the company to choose the right partner every time (Arvin Annia, Marketing Manager, CTL Emcol brand). In the discussions leading to the inception of the tool it was proposed that marketing skills, market knowledge and access (which include knowledge of specific market segments) and market position were critical success factors for the ability of the prospective licensee to achieve business objectives; technical skills were essential as the licensee manufacture the product on license in the target market, and needs to be able to carry out after sales service; commitment and motivation, comparable corporate culture, strategic alignment, chemistry and trust were deemed to be essential ingredients for the success of the relationship; partnering skills, willingness to support staff training and corporate learning were thought essential for the licensees to absorb and operate the new technology. Financial resources and stability are essential for the relationship soundness; a good balance of power between the principal and the partner ensures any difference in negotiating power is not adverse to the principal. Finally, intangible assets addresses such issues as whether the organization enjoys a good reputation in the target market, and whether the human resources are suitable for a successful collaboration. These criteria were selected to score each prospective licensee on a quantitative scale for each of the factors.

The instrument “allows us to tick the right boxes, assessing the elements that are important to take up the license, e.g. the company’s technical skills, their marketing and sales skills. (...) LES allows us to ask for a business plan to fill any gaps identified (Annia). One of the attractions of the instrument was its ability to score each of the criteria on a quantitative scale. In fact, a spreadsheet version was developed in Excel so that the scores could be easily processed. This way, LES is also “a means of comparing different prospective licensees, through the scores. The weighted score are definitely the best result it is also an earlier evaluation of a licensee than what we have done in the past. We can see how we can extract value at the early stages and sort out the time waster from those who are going to take it forward (Hayes).

Table 3 LES Scoring Sheet

	Weighting	Score (0 - 10)	Rating
Qualification	30%		0
Compatible Corp. Culture	100%		0
Marketing Skills	100%		0
Intangible Assets	30%		0
Technical Skills	75%		0
Market Knowledge/Access/Position	100%		0
Partnering	50%		0
Training/Support	30%		0
Balance of Power/Financial Stability	100%		0
		Total	0

Source: The Authors

LES’ Support to relationship building and management

The LES gives prospective licensee an indication of what is expected of them. Companies we tested it with observed it was useful as they understood what was expected of them, and gave them inputs for their business plan (Alistair Ingleby, CTL Emcol Divisional Director). It helps to identify gaps in their ability to invest in resources. Once these are identified, the prospective licensee can be excluded, or the issue can be addressed, for example, (Ingleby). Whether we need a dedicated sales force, or investment is needed in terms of machinery (...) software (...) to acquire the ability to launch products. They need investment in getting the right skills to do that effectively (Hayes); and (LES) mitigates confusion across language barriers (Woods). The LES brought incremental improvements in the information and support we give (our prospective licensees). It also affects the information that we request back. It may uncover some gaps in the prospective licensee’s capabilities, or where they have provided insufficient information. One of the prospective licensees I had administered LES to commented that it was nice to see that we were covering all this ground now, so maybe that helps setting the relationship to a good start” (Annia). One of the benefits is that it focuses the attention of the directors of the business on the issue. For example, the directors now look actively into the information that we provide, this is quite important in itself, that it gets through the right channels.

Limitations of LES

There is a danger that LES may be too prescriptive, in practical terms we would get more using it face to face. It is face to face tool; you need to see people’s reactions in order to adapt the administration (Ingleby). Language and cultural barriers may be the biggest limitations, especially as far as the administration of the questionnaire is concerned.

“We lack the internal capability to administer LES in anything other than English. I also feel that this is a tool that is better administered face to face, however resource constraints mean we often administer (it) over the telephone. These are the two main shortcomings” (Annia) “It needs to be fine tuned to account for cultural differences” (Woods).

Conclusions and managerial implications

Because of the importance of selecting a partner with the right mix of skills and attributes, it is vital that the suitable set of criteria is used in a formal vetting process. The diagnostic tool we propose in the shape of the Licensee Evaluation Scorecard (LES) has this very function. During the selection process, and in the initial stages of the relationship, we propose that relationship marketing techniques should be

deployed to manage the relationship successfully, in particular in order to build the trust necessary to the information exchange. When entering new remote and psychically distant markets, this needs to take into account the need to adapt relational marketing techniques to the local culture. For example, in some cultures there will be a greater need for face to face, personal communication, with implications for the human resources necessary to establish and maintain these relationships. This has implications for the need of the company to overcome the resource constraints to enable effective relationship building.

The empirical research carried out thus far suggests that LES is an effective diagnostic tool. The pilot testing of the questionnaire built on the basis of LES revealed difficulties due to the length of the questionnaire and the confidential nature of some of the questions. After revision of the questionnaire, it was confirmed that a length of time and a number of face to face encounters was necessary to build the trust necessary to acquire the information. Language is also a significant barrier. General constraints to the implementation include therefore the need to travel to the destination to administer the questionnaire face to face, with consequent resource implications, and the need for skilled administrators with language skills. In some cases the administration of the questionnaire required tact and interpretation, and analysis suggests differences in openness across different cultures. This confirms the theories on relationship management exposed above. The LES is otherwise essential to generate a comprehensive picture of potential partners and scoring them on a scale so to be able to compare them to other potential licensees. This enables CTL to ascertain to what extent the prospective partner is suitable to engage in a relationship with a high level of interaction, featuring the establishment of complex activity links and resource ties. The LES is also in this respect a contribution to both the interaction approach and the theoretical models of partner research, in that it offers a discriminatory tool to make decisions on what relationships to enter to maximise the level of positive interaction.

Recommendations for future research

Further research should be aimed at revealing how relationships with licensees and franchisees develop; in order to manage that development in the most effective way and identifying the role relationship marketing techniques can play in developing and managing that relationship, and what their long term limitations are. In particular, we aim at tracking the performance of licensees selected by means of the LES and compare this prior licensees to see how effective LES at predicting the outcome of the collaboration. Finally, the rating model proposed will need to be tested across a range of firms and industry sectors. These will be the next steps of our research as part of our longitudinal study.

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