



Swedish University of Agricultural Sciences  
Faculty of Natural Resources and Agricultural Sciences  
Department of Economics

# **Internationalization of the Macedonian Wine Exporters**

*Iva Joveva*

Master's thesis • 30 hec • Advanced level  
Agricultural Economics and Management - Master's Programme  
Degree thesis No 696 • ISSN 1401-4084  
Uppsala 2011

## **Internationalization of the Macedonian Wine Exporters**

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Department of Economics

**Credits:** 30 hec

**Level:** Advanced E

**Course title:** Degree Project in Business Administration

**Course code:** EX0536

**Programme/Education:** Agricultural Economics and Management - Master's Programme

**Place of publication:** Uppsala

**Year of publication:** 2011

**Name of Series:** Degree project

**No:** 696

**ISSN** 1401-4084

**Online publication:** <http://stud.epsilon.slu.se>

**Key words:** Internationalization process, Republic of Macedonia, networks, wine  
producers



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# Acknowledgements

I would like to express my sincere gratitude to the following institutions who gave me the opportunity to participate in the Agricultural Economics and Management - Master's Programme at the Swedish University of Agricultural Sciences (SLU) and realize this thesis: the Swedish International Development Agency (SIDA), SLU and the Department of Economics and Organization at the Faculty of Agricultural Sciences and Food in Skopje.

My sincere appreciation to the companies, wineries and representatives that participated in the research: Agropin, Bovin, Imako Vino, Kartal, Rigo Impeks and Tikves.

I am deeply indebted to my supervisor, Professor Bo Öhlmer for his ongoing guidance, suggestions and encouragement during the entire process. Further, I also give my thanks to my assistant supervisor, Professor Nenad Georgiev for his support and contacts.

A special thanks to Professor Mihail Petkov for the useful initial information and contacts.

Finally, I would like to thank my parents and my brother for being my greatest support in every possible way throughout the entire process.

# Summary

The thesis investigates the internationalization process of the Macedonian wine producers and the challenges they face along their international path. The aim of the thesis is to *describe, explain and understand how Macedonian wine producers internationalize*. The thesis focuses particularly on the role of networks on the international growth of the wine producers from Republic of Macedonia.

In order to provide a better understanding on the internationalization process of the Macedonian wine producers the thesis presents an integrated conceptual framework by integration of the traditional and network approaches to internationalization, the integrative model of small firm internationalization, the motivating and hindering factors and the key factors influencing the process. To achieve the aim, the thesis focuses on the wine subsector in Macedonia. An exploratory multiple case study approach is adopted in order to provide better understanding of the process based on the international experiences of six wineries from Macedonia.

The findings showed that the Macedonian wine producers commence international activities soon or right after the establishment of the wineries. The exports of bottled wine are concentrated in the regional markets while the exports of bulk wine are concentrated in Germany. The initial and ongoing export activities are motivated as a result of the limited domestic market and, to a lesser extent, as a reaction to the opportunities that arise from the foreign markets in form of unsolicited orders. In the later stage of the export development the producers of bottled wine are motivated to internationalize by proactive factors, such as knowledge about foreign markets and representative product, in addition to the limited domestic market. However, the findings showed that the proactive motivation and approach in looking for new market opportunities, in this case, do not reflect in a proactive expansion to new foreign markets as the wineries are concentrated on few key markets where the wine is exported as bulk or bottled with lower prices, indicating that the expansion to new markets depends from other factors too. It was identified that those are mainly factors that originate from the domestic environment that reflect on the export activities of the wineries in the foreign environment, and are thus beyond their control. Examples are: lack of country image outside the regional markets, underdeveloped support industry, lack of governmental support and unregistered wine regions in the EU as a country specific factor that influences the development of image of Macedonia as a producer of quality wine.

Personal and business networks play a significant role on the export activities of the Macedonian wine producers as they provide them with information and knowledge about foreign market opportunities and in some cases initiate establishment of new contacts and business relationships. However, not all of the wineries are aware of the role of the business and personal relationships on their internationalization process. In addition, the wine associations, except for one, are not perceived as an instrument that creates international opportunities for the wineries.

The level of presence of the Macedonian wine producers in the foreign markets is not sufficient to meet the quantity production potential of the wineries. Thus further expansion on these markets and to new foreign markets and the development of stable business relationships, would allow for utilization of their unused production capacities, thus higher profitability, which will enable them to invest in new technology and equipment or innovation. Moreover, it will be beneficial to the overall Macedonian economy and employment in the viticulture regions.

**Key words:** Internationalization process, Republic of Macedonia, networks, wine producers

# Резиме

Тезата го истражува процесот на интернационализација на македонските производители на вино и предизвиците со кои се соочуваат во тој процес. Цел на тезата е да се *опише, објасни и разбере како македонските производители на вино наспатуваат во процесот на интернационализација*. Тезата се фокусира на улогата на мрежите врз интернационалниот раст на производителите на вино од Република Македонија.

Со цел подобро да се разбере процесот на интернационализација на македонските производители на вино, претставена е концептуална рамка која ги интегрира традиционалниот и мрежа пристапите на интернационализација, интегрираниот модел на интернационализација на мали фирми, како и мотивирачките фактори и факторите кои го попречуваат процесот на интернационализација, и други клучни фактори кои влијаат на истиот. За да се постигне целта на истражувањето, тезата се концентрира на подсекторот за вино во Македонија. Применета е повеќекратна истражувачка студија на случај со цел подобро разбирање на процесот врз основа на интернационалните искуства на шест винарски визби од Македонија.

Резултатите покажуваат дека македонските производители на вино започнуваат со интернационални активности веднаш или брзо по основањето на винарските визби. Извозот на вино во шишиња е сконцентриран на регионалните пазари, додека извозот на налевно вино е сконцентриран во Германија. Првичните и тековните извозни активности се мотивирани од ограничениот домашен пазар, а во помала мера можат да настанат и како реакција на можностите кои произлегуваат од странските пазари во форма на спонтани нарачки. Во подоцнежната фаза на развој на извозот производителите на вино во шишиња, освен од ограничениот домашен пазар, се мотивирани да се интернационализираат и како резултат на проактивни фактори како познавање на странските пазари и поседување претставителен производ. Сепак, резултатите покажуваат дека проактивна мотивација и проактивен пристап во потрага по нови можности на пазарот, во овој случај, не се рефлектираат во проактивна експанзија на нови странски пазари. Па така, винарските визби се сконцентрирани на неколку клучни странски пазари каде виното се извезува како налевно или во шишиња по пониски цени, што покажува дека експанзијата на нови пазари ќе зависи и од други фактори. Тоа се пред сè фактори кои потекнуваат од домашната средина и влијаат на извозните активности на винарските визби во странската средина, и на тој начин се надвор од нивна контрола. Примери за такви фактори се: недостаток на имиџ на земјата производител на вино надвор од регионалните пазари, неразвиена придружна индустрија, недостаток на владина поддршка, и нерегистрираните вински региони во ЕУ кој е специфичен фактор за земјата и кој влијае на развојот на имиџот на Македонија како производител на квалитетно вино.

Личните и бизнис мрежите имаат значајна улога врз извозните активности на македонските производители на вино бидејќи обезбедуваат информации и знаење за можностите на странските пазари, а во некои случаи иницираат и воспоставување на нови контакти и бизнис односи. Сепак, не сите винарски визби се свесни за улогата на личните и бизнис односите врз нивниот процес на интернационализација. Покрај тоа, со исклучок на една асоцијација, на асоцијациите за вино не се гледа како на инструмент кој создава интернационални можности за винарските визби.

Нивото на присуство на македонските производители на вино на странските пазари е недоволно во споредба со нивниот произведен капацитет. Со понатамошно проширување на постоечките и на нови странски пазари, како и развој на стабилни бизнис односи, ќе се овозможи искористување на неискористените производствени капацитети на винариите, со што ќе се обезбеди поголема профитабилност и, како резултат на тоа, можност за инвестиции во нова технологија и опрема или иновации. Истото ќе биде корисно и за целокупната македонска економија како и за вработувањето во винските региони.

**Клучни зборови:** процес на интернационализација, Република Македонија, мрежи, производители на вино

# Abbreviations

<b>CEFTA</b>	Central European Free Trade Agreement
<b>DSVW</b>	Draft Strategy for Viticulture and Wine
<b>EU</b>	European Union
<b>FASF</b>	Faculty of Agricultural Sciences and Food in Skopje, Macedonia
<b>GMWP</b>	Group of Macedonian Wine Producers
<b>ha</b>	Hectare
<b>hl</b>	Hectoliter
<b>MAFWE</b>	Ministry of Agriculture, Forestry and Water Economy
<b>MEG</b>	Macedonian Economic Guide
<b>NARDS</b>	National Agricultural and Rural Development Strategy
<b>SLU</b>	Swedish University of Agricultural Sciences
<b>SS</b>	Sector Study
<b>t</b>	Ton
<b>USAID</b>	United States Agency for International Development

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# 1 Introduction

In the last two decades the Macedonian wine producers are actively increasing their presence into the international market. This thesis investigates the internationalization process of the Macedonian wine producers and the challenges they face along their international path.

The chapter provides a general overview of the contents of the thesis and is organized as follows:

- *Section 1.1* provides a brief information about Republic of Macedonia and the wine subsector providing a background for the research,
- *Section 1.2* presents the problem discussion,
- *Section 1.3* presents the aim of the thesis together with the delimitations, and
- *Section 1.4* introduces the structure of the thesis.

## 1.1 Problem background

The Republic of Macedonia (Macedonia in the further text) (Appendix 1) is a landlocked country situated in South-eastern Europe (MEG, 2010). Macedonia declared its independence from the Socialist Federal Republic of Yugoslavia in 1991 (*ibid*) and entered a period of transition from planed to market economy (SS, 2009). Today Macedonia is a European Union candidate country and highly open to international trade (www, European Commission).

The wine subsector in Macedonia has great macroeconomic significance. Around 70% of the total wine production in Macedonia is exported to foreign countries (DSVW 2010-2015, 2010), indicating the export oriented character of the subsector. In terms of export value, wine is the second most important agricultural product after tobacco (Dimitrievski and Kotevska, 2008). Therefore, the subsector is very important for the national economy in terms of providing foreign capital. Moreover, the wine subsector together with the grape subsector contributes to employment in the viticulture regions (NARDS 2007-2010, 2007). Because of its strategic importance for the national economy, as well as a result of the global wine hyper production, the saturation of the wine market and the global financial crisis, the Macedonian government seeks to support the finding of new trade partners (DSVW 2010-2015, 2010). In addition, the financial support that the government provides to the wine subsector, among the other measures, includes measures to support scientific research projects, organization and participation on a wine fairs and manifestations as well as promotion and marketing (*ibid*).

In Macedonia 86 officially registered wineries currently operate (DSVW 2010-2015, 2010). The subsector is represented by a low number of wineries with medium and large production capacity and a high number of wineries with smaller production capacity (*ibid*). During the last decade the number of smaller wineries oriented towards production of high quality bottled wine with sophisticated equipment and technology has been rapidly increasing (www, GMWP). However, as in many other world countries (Hall and Mitchell, 2008) the majority of wine production and exports is predominately controlled by the larger wineries (www, USAID).

According to the climate conditions Macedonia is classified as one geographic area (Appendix 2) that is, a region for production of regional wine<sup>1</sup> which coincides with the whole territory of Macedonia (Annual Report, 2009). Further, the wine region Macedonia has 16 wine sub regions (districts) i.e. wine sub region (district) for production of quality wine, characterized with different production conditions and intensity (*ibid*).

The main export markets for Macedonian wine are the European Union (EU) countries and the member countries of CEFTA<sup>2</sup> (Central European Free Trade Agreement), where wine is exported duty free (DSVW 2010-2015, 2010). Wine is mainly exported in bulk quantities in the EU market, while exports in CEFTA member countries are dominated by bottled wine (*ibid*). Other markets where Macedonian wine is exported in smaller quantities are: United States of America, Canada and Japan (*ibid*).

In the last couple of years it is evident that some of the Macedonian wine producers join in local wine associations to work together on various issues. Examples include: Wines of Macedonia, Tikves Wine Route foundation and the Group of Macedonian Wine Producers. All these local associations are formed to encourage collaboration between member wineries on various issues, among which the promotion of Macedonian wine and increase of exports take important place.

## 1.2 Problem

Leonidou and Katsikeas (1996) argue that export development literature does not offer sufficient explanation of the export development process. However, they state that the process should be seen from a network perspective and models like the one by Johanson and Mattsson (1988) focusing on the exchange relationships between the export supplier and the customer in the foreign market should be used in the future research. The term *network* is used to describe a web of personal and business relationships including: suppliers, customers, distributors and competitors (Johanson and Mattsson, 1988) or a “*set of two or more connected business relationships*” (Blankenburg Holm, et al., 1999).

Chetty and Blankenburg Holm (2000) argue that the literature considering internationalization through networks is focused only at the organically developed networks and is insufficient in explaining the role of formally structured networks for the internationalization of firms. Formal networks are groups of companies with limited number of members that share common goals (Rosenfeld, 2001). In the wine industry, formal networks like local wine associations or cooperatives offer a number of benefits to individual firms in terms of joint promotional activities, exchange of know-how or information on new markets (Hall and Mitchell, 2008).

According to Chetty and Blankenburg Holm (2000) both organically developed and formally structured networks provide firms with knowledge and access to international markets and therefore, have positive impact on their internationalization process. Since internationalization

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<sup>1</sup> According to the new Wine Law (Official Gazette, 50/2010). Before that Macedonia used to have three wine regions (Vardar region, Pelagonija-Polog region and Pcinja-Osogovo region) and 16 districts (Hristov, 2002) (see Appendix 2).

<sup>2</sup> Member counties of CEFTA are: Macedonia, Serbia, Croatia, Bosnia and Herzegovina, Montenegro, Albania, Kosovo and Moldova (www, CEFTA).

is very important for the individual wine producers it is of great value to identify *how different forms of networks affect the internationalization process of the Macedonian wine producers?*

## **Contribution**

The results of the thesis will provide useful information to the decision makers from the Macedonian wine subsector as well as to the policy makers. With regard to the decision makers the thesis will provide information on the factors that initiate as well as constrain their international activities and therefore assist them in developing their international strategies, and overcoming existing and potential problems. As to the policy makers, the thesis will provide useful information, on bases on the firms' experiences, which can serve as a guide in the future policy making. In addition, the thesis attempts to contribute to the internationalization literature by providing empirical evidence from the Macedonian wine subsector.

## **1.3 Aim and delimitations**

The aim of the thesis is to *describe, explain and understand how Macedonian wine producers internationalize*. To achieve the aim, the thesis focuses on the wine subsector in Macedonia. A multiple case study approach is adopted in order to provide better understanding of the wine producers' internationalization process. The internationalization path of each of the cases is identified and analyzed in relation to the existing theoretical approaches from the internationalization literature.

Two research questions are formulated to guide the thesis:

- *How do Macedonian wine producers approach the internationalization process?*
- *How do networks influence the internationalization process of the Macedonian wine producers?*

More precise research questions will be formulated in section 2.3 based on the literature review.

## **Theoretical delimitations**

The internationalization literature is broad and consists of different theories that explain the internationalization process of firms. The thesis adopts an integrated framework comprised of two widely applied internationalization approaches: the traditional approach and the network approach. Other approaches and theories were not applied in the thesis. However, the thesis investigates other factors that may influence internationalization (such as local associations and government policy) but are not addressed by the traditional and network approaches to internationalization.

In general, the theories applied in the thesis originate from Sweden (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977) and are further applied in other countries, mainly New Zealand (Coveillo and Munro, 1995, 1997). Given the differences between those countries and Macedonia regarding the level of economic development, policies and culture, it is questionable how suitable the internationalization theories are to explain the internationalization process of firms from the Macedonian wine subsector. However, as a result of limited empirical evidence from other countries, researchers call for further research in different context (McAuley, 2010).

## Methodological delimitations

Six internationalized wineries from the wine subsector in Macedonia have been chosen as a basis for the research. Interviews were conducted with each winery. The cases were chosen based on purposive sampling technique and the findings from the research may be subject only to theoretical generalization rather than a whole population.

## Empirical delimitations

The whole research and writing process was conducted from Macedonia which limited the access to relevant literature in the field of internationalization. The reviewed literature applied in the thesis is mainly based on published articles accessed electronically through the SLU library while physical access to the other literature at the library was not possible. In addition, several articles that were of interest for the study were obtained through other sources and a couple of books were accessed through the library at the Department of Economics and Organization, FASF, Skopje.

In addition, the researcher faced constraints due to the lack of available as well as consistent information needed for choosing the cases and for the further research process. However, these constraints were surpassed by conducting further research (including review of the websites of the wineries, published reports, and consultations with experts) which jointly with the information collected during the interviews provided rich empirical input for the analysis.

## 1.4 Outline

The thesis has seven chapters including the Introduction (Chapter 1). The outline of the thesis is presented in figure 1.

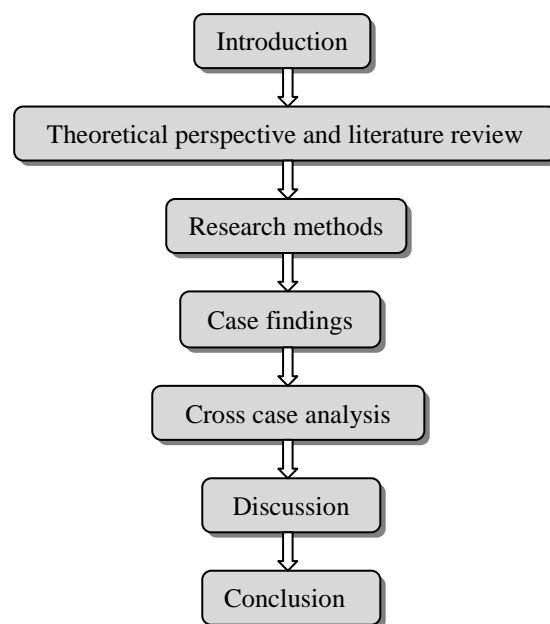


Figure 1: Illustration of the outline of the study

- Chapter 1 gives a brief introduction of the problem area, formulates the problem and the research questions, as well as the delimitations of the research,

- *Chapter 2* presents the reviewed literature in the internationalization field relevant for answering the research questions, formulates more precise research questions and presents the conceptual framework developed for the thesis,
- *Chapter 3* contains the research methods chosen for the research, including the research strategy, sampling technique, data collection and the framework for data analysis,
- *Chapter 4* presents the case findings,
- *Chapter 5* analyses the findings in relation to the literature in order to provide answers to the research questions,
- *Chapter 6* discusses and compares the findings with existing literature in order to provide better understanding of the internationalization process of the Macedonian wine exporters, and
- *Chapter 7* concludes the thesis by answering the aim and provides implications for the decision makers and policy makers as well as directions for future research.

## 2 Theoretical perspective and literature review

The Theoretical perspective and literature review chapter provides insights into previous research regarding internationalization process of firms relevant for answering the research questions (Chapter 1, Introduction). The chapter is divided in three sections as follows:

- *Section 2.1* defines internationalization and presents the theoretical framework chosen for the research. The framework offers a holistic overview of the internationalization process by integrating two approaches: the traditional approach (represented by the Uppsala model) and the network approach. Furthermore, the section discusses an integrative model comprised of three different paths that firms may follow when expanding to foreign markets, developed on a bases on the traditional and network approach. Factors that influence internationalization are presented at the end of the section,
- *Section 2.2* provides more detail on the literature examining internationalization through networks. This section summarises types of networks found in the literature and provides definition for networks as used in this research. At the end, empirical findings from different studies regarding the role of networks on internationalization are presented, and
- *Section 2.3* summarises the findings from the literature, presents the conceptual framework and formulates more precise research questions.

### 2.1 Internationalization

#### 2.1.1 Definition and integrated framework

Firms often decide to build new markets by offering their products outside national boundaries (Johnson, *et al.*, 2007). This form of market development constitutes internationalization (*ibid*). Beamish (1990), as cited in Coviello and Munro (1997) defines internationalization as:

*“...the process by which firms both increase their awareness of the direct and indirect influences of international transactions on their future, and establish and conduct transactions with other countries”* (p.362).

Based on the above definition, internationalization is a process involving international trade. In this process firms establish and conduct activities in the international market. This part of the definition refers to the decisions of firms regarding the selection of markets and entry modes. Firms may enter foreign markets through the following modes: exporting, joint ventures and alliances, licensing or foreign direct investment (Johnson *et al.*, 2007). Beside the outward activities, the definition allows for recognition of the inward internationalization activities as well. Those activities may be in form of countertrade or importing (Coviello & McAuley, 1999). Furthermore, the definition emphasizes the behavioural aspect of internationalization. In other words, with an increased international involvement firms further learn and increase their awareness about future international opportunities.

Exporting is the initial step in the internationalization process (Jonanson and Vahlne, 1977; Leonidou and Katsikeas, 1996) and can take two different forms: direct export or indirect export through domestic or foreign based intermediaries (Peng and York, 2001). Exporting is

beneficial from a macroeconomic and a microeconomic perspective (Leonidou and Katsikeas, 1996). In other words, it is beneficial for the national economies and individual firms as well. Therefore, governments develop national export programs while firms are focused at the key factors influencing their export growth (Leonidou and Katsikeas, 1996).

The internationalization process has attracted the attention of many researchers in the field. The abundant internationalization literature offers different explanations of how and why firms decide to expand in foreign markets. Generally it is suggested that firms may follow three main paths in the internationalization process: ‘traditional’, ‘born global’ and ‘born again global’ (Bell *et al.*, 2003). In addition, many theories emerged to explain the firms’ overseas expansion and contribute to the literature on the internationalization paths. Researchers suggest that internationalization is best understood by integration of different theories in the field (Coviello and Munro, 1997; Coviello and McAuley, 1999; Bell *et al.*, 2003; Jones and Coviello, 2005). Table 1 presents the theoretical frameworks suggested by the aforementioned authors:

*Table 1: Integrated Frameworks in the Internationalization Literature*

<b>Authors</b>	<b>Integrated theories/models</b>
Coviello & Munro, 1997	Stage (traditional) and Networking
Coviello & McAuley, 1999	Stage (traditional), Networking and Foreign direct investment theory
Bell, McNaughton, Young & Crick, 2003	Traditional, Networking, Contingency and Resource based theory
Jones & Coviello, 2005	Traditional, Networking, Entrepreneurship and Resource based theory

Source: compilation from various authors

The integrated framework proposed by Coviello and Munro (1997), comprised of the traditional (stage) and network approaches to internationalization, is adopted as a base for further discussion in this thesis. This framework offers a holistic overview of internationalization by integrating the internally and externally driven approaches together. According to the traditional approach (Johanson and Vahlne, 1977; 1990) internationalization is influenced by the managerial learning as the firm increases its international commitments, while the network approach (Johanson and Mattsson, 1988) considers the external web of relationships that a firm develops and maintains as the main driver for internationalization. The integration of traditional and network approaches allows a better understanding of the internationalization process of firms (Coviello and Munro, 1997). Both approaches are presented in more details in the following subsections respectively.

### 2.1.2 Traditional approach

The two models that dominate the traditional approach to internationalization of firms (Chetty and Campell-Hunt, 2004) are the innovation model and the Uppsala internationalization model. Both models, recognized as “stage models”, describe internationalization as gradual development of a firm, in series of stages (*ibid*). The innovation model (Cavusgil, 1980) observes internationalization as innovation for the firm and is closely related with the Uppsala model (Andersen, 1993). The Uppsala model remains one of the most widely adopted internationalization models in the literature (Chetty and Campell-Hunt, 2004) and thus is further discussed in the thesis.

The Uppsala model was originally initiated by Johanson and Wiedersheim-Paul (1975) as an outcome of empirical observations regarding the internationalization of Swedish firms, with no restriction concerning their sizes (Johanson and Vahlne, 1977; Andersen, 1993). The findings showed that most Swedish firms favour gradual involvement in foreign markets rather than large investment commitments (Johanson and Wiedersheim-Paul, 1975). Johanson and Wiedersheim-Paul (1975) believe that the gradual internationalization is typical for firms operating in small domestic markets. The model was further developed by Johanson and Vahlne (1977; 1990).

The Uppsala model is a behavioural oriented model which proposes that internationalization is a dynamic process in which firms gradually increase their operations in a foreign environment (Johanson and Vahlne, 1977; 1990). An emphasis is put on the firms' international experimental knowledge as a critical aspect that influences the international decisions (*ibid*). In other words, firms learn from their current international activities and the acquired knowledge about the market and operations affects their future commitment decisions and activities. Johanson and Vahlne (1977; 1990) argue that as a result of the long learning process, the expansion of operations to foreign markets takes place incrementally. In conclusion, firms commence internationalization with no regular export activities and over a period of learning from ongoing activities they increase their international commitment through agents, followed by possible establishment of a subsidiary and potential subsequent production in the foreign country (*ibid*).

The Uppsala model also suggests that when firms choose foreign markets their decision is also influenced by the psychic distance between the two countries (Johanson and Vahlne, 1977; 1990). Psychic distance refers to differences in language, culture and business practices among countries that may hamper business communication between firms (*ibid*). For that reason firms decide to commence international activities in neighbouring and similar countries with regard to the above mentioned factors, followed by successive establishment of operations in more distant countries (*ibid*).

After three decades, the Uppsala model still dominates in the internationalization literature. However, despite the broad use, the model is criticised by many authors. According to Johanson and Vahlne (1990) the model is mainly criticised for being too deterministic, as it refers to the series of stages that a firm goes through during the internationalization process. Andersen (1993) argues that the incremental models are vague and lack detail in explaining the movement from one stage to another. Bell (1995) suggests that the internationalization process is not as simple as the traditional models indicate. In addition, Bell (1995); Coviello and Munro (1995) and Jones (1999) argue that the incremental approaches often are not applicable to smaller high technology firms compared to larger manufacturing firms, mainly because they do not internationalize in a stepwise manner. Moreover, Forsgren (2002) suggests that the Uppsala model deals only with learning through firms own experience and fails to incorporate other dimensions.

Johanson and Vahlne (1990; 1992; 2003) have responded to such criticism by reviewing the Uppsala model. They believe the old model, although still applicable to some firms, does not necessarily apply to those firms that internationalize more rapidly and exploit the advantages of business networks (*ibid*), i.e. the network approach to internationalization.

### 2.1.3 Network approach

The network approach was popularized in the early 1980s when a couple of Swedish studies recognized the influence of networks on internationalization (Johanson and Mattsson, 1988; Fillis, 2001). The Johanson and Mattsson (1988) research on the internationalization of industrial firms is one of the most influential studies in this field. According to this research, firms do not operate in isolation but rather built relationships with other actors and become part of a network. The main actors in the network include: suppliers, customers, distributors, competitors and governments (*ibid*). Johanson and Mattsson (1988) argue that firms establish network relationships as a result of the mutual dependence on resources and selling products and services. For instance, a wine maker depends on the grape grower who controls the resource, while a grape grower depends on the wine producer to buy the grape. Due to the mutual resource dependence, both producers develop and maintain an exchange relationship.

Johanson and Mattsson (1988) suggest that long lasting network relationships are build on knowledge and trust among the actors in the network as a result of the past trading experiences between them. Therefore, developing network relationships takes time (*ibid*). The increase of knowledge and trust among firms each time they repeat actions is similar to what Johanson and Vahlne (1977) propose in the Uppsala model. However, Johanson and Mattsson (1988) add that the Uppsala model is not sufficient to explain the internationalization process of the firm, especially when the market and the firm are characterized with high level of internationalization. Furthermore, they argue that the network approach observes the firm in relation to the market and is not focusing only at the internal development of the firm (*ibid*). In response to such criticism Johanson and Vahlne (1990; 1992; 2003) revised the Uppsala model by recognizing the influence of network relationships on the internationalization behaviour and added that knowledge of foreign markets is developed through relationships (*ibid*). Furthermore, the internationalization is influenced by developing relationships with new foreign markets as well as by connecting through existing networks to new markets (Johanson and Mattsson, 1988; Johanson and Vahlne, 1992).

Based on the above Johanson and Mattsson (1988) developed the network model. Depending on the degree of internationalization of the market and the firm, the model recognises four types of firms: the early starter, the lonely international, the late starter and the international among others (*ibid*). According to the network model the firm positions itself in relation to other firms in the international markets through international extension, penetration or international integration (*ibid*). Johanson and Mattsson (1988) argue that the position of the firm in relation to the domestic and the foreign market is very important as it influences the firms' strategy and decisions regarding the internationalization process.

According to Chetty and Blakenburg Holm (2000) the network model developed by Johanson and Mattsson (1988) is useful in explaining the behaviour of firms in the internationalization process. However, they found several weaknesses of the model. They point out that the decision maker, as an internal factor that may encourage or inhibit internationalization, is not included in the model (Chetty and Blakenburg Holm, 2000). Furthermore, they argue that external drivers such as strong competition in the domestic market, unsolicited orders or government policies are not addressed in the network model. Finally they add that the network model considers only organically developed relationships while formal associations are excluded.

#### 2.1.4 Internationalization paths

The internationalization literature proposes that firms follow different paths when expanding to foreign markets. Based upon empirical evidence from a number of internationalized firms Bell *et al.* (2003) present an integrative model comprised of three paths: ‘traditional’, ‘born global’ and ‘born again global’. The model integrates the traditional and network approaches, as well as elements from the contingency approaches and resource based theories (*ibid*). Bell *et al.* (2003) state that the classification of firms on ‘traditional’, ‘born global’ and ‘born again global’ stems from the differences in the international motivation and behaviour among them. The firms’ international motivation explains their behaviour when expanding to foreign environment and therefore influences the patterns and pace of internationalization and the international strategy they adopt (*ibid*).

Bell *et al.* (2003) describes ‘traditional’ firms as reactive, driven to internationalize mainly by the unfavourable conditions in the domestic market and unsolicited orders or enquiries. Their main goal is to achieve greater market share and sales volume in order to survive in the foreign market (*ibid*). ‘Traditional’ firms move incrementally from operating in the domestic market to psychically close markets, often targeting one market at a time (*ibid*). Firms usually adopt conventional approaches through agents and distributors as channels to other markets and continue with a reactive behaviour to new international opportunities (*ibid*).

Unlike ‘traditional’ firms, ‘born global’ adopt proactive behaviour, begin to internationalize immediately or soon after inception and offer niche products (Bell *et al.*, 2003). Typically, they are smaller firms, entrepreneurial by nature (Bell *et al.*, 2003; Dimitratos and Plakoyiannaki, 2003) and willing to take business risks (Chetty and Campell-Hunt, 2004; Oviatt and McDougall, 2005). The main objective of ‘born global’ is to experience the first mover advantage and rapidly engage in several distant markets. (Bell *et al.*, 2003). These firms usually operate simultaneously at the domestic and foreign market and adopt structured approaches to internationalization by utilizing networks with channel partners (*ibid*).

‘Born again global’ firms experience rapid international expansion influenced by critical circumstances like change in ownership or management, providing them with access to new networks in foreign markets or additional resources (Bell *et al.*, 2003). Their main objective is to exploit the acquired resources and networks from the ‘critical incident’ in order to move rapidly from the domestic to new international markets (*ibid*). Before the ‘critical incident’ ‘born again global’ firms have strong domestic orientation without planned international intentions (*ibid*). However, soon after the critical events such firms engage to several markets at once and adopt a more structured approach (*ibid*).

As can be seen from the above discussion, Bell *et al.*, (2003) classify as ‘traditional’ those firms that adopt incremental approaches to internationalization as described in subsection 2.1.2. On the other hand ‘born global’ firms are typically smaller firms characterized by rapid internationalization and usually emanating from high technology sectors. ‘Born again global’ firms usually arise from traditional industries same as ‘traditional’ firms but after experiencing the ‘critical incident’ adopt similar behaviour like ‘born global’ firms. Networking (subsection 2.1.3) is relevant for all three types of firms. However, ‘born global’, as well as ‘born again global’, at some point after the critical circumstance proactively seek to establish new and exploit the existing networks in order to achieve advantage.

The existing literature is not consistent regarding the time period within which firms have to become international in order to be recognized as ‘born global’ and ‘born again global’. Chetty and Campell-Hunt (2004) argue that “*the definitional boundary for born globals is a matter of degree more than a generic absolute*” (p.65). They found that the time frame for ‘born global’ firms to internationalize vary in different studies starting from two years and up to eight years from inception (*ibid*). One possible explanation is that firms internationalizing up to two or three years from inception emanate from high technology sectors while the others are from more traditional sectors. The study adopts a time frame of eight years period in which firms must internationalize in order to be recognized as ‘born global’. In relation to ‘born again global’ firms, the literature does not provide evidence how quickly these firms become international after experiencing the ‘critical incident’. In order to maintain consistency with the time frame adopted for ‘born global’ firms, the study recognize as ‘born again global’ those firms that moved to foreign markets within eight years, once the critical event occurred.

Previous subsections identified many factors in the internationalization literature that may influence the internationalization process of firms, including: psychic distance, decision makers and networks (Johanson and Vahlne, 1990; Johanson and Mattsson, 1988). It also revealed that those factors may explain their behaviour when expanding to foreign markets (Bell *et al.*, 2003). By virtue of findings from export marketing literature, the following subsection aims to identify more potential factors that may influence the process in order to provide basis for better understanding of the phenomenon.

### 2.1.5 Factors influencing internationalization

Morgan (1997) suggested that the export decision making process is influenced by both, motivating and hindering factors and therefore they should be examined together. Export motivating factors are defined as “*all those factors influencing a firm’s decision to initiate, develop or sustain export operations*” (Leonidou, 1995a, pp.135) while hindering factors are “*all those attitudinal, structural, operational, and other constraints that hinder the firm’s ability to initiate, develop or sustain international operations*” (Leonidou, 1995c, pp. 31).

Motivating factors can explain why some firms become involved in and continue exporting (Leonidou, 1995a) whereas hindering factors can explain why some firms engaged in exporting do not utilize their full potential along the internationalization path (Leonidou, 1995c). Different terms are used in the literature referring to those factors including: stimuli, attention evokers and incentives for motivating factors, and problems, barriers, obstacles and impediments for hindering factors.

Piercy (1981) classified the motivating factors as reactive and proactive. Reactive factors explain the firms’ export behaviour as a response to changing conditions, for instance unsolicited orders from abroad or saturated domestic market, (push factors), thus reflecting passive behaviour of firms in looking for export opportunities (Katsikeas and Piercy, 1993). On the other hand proactive factors are associated with the firms’ unique competences or interest in taking advantage of market opportunities, like possession of competitive advantage or information on foreign markets, (pull factors), therefore showing aggressive behaviour in looking for export opportunities (*ibid*).

Alternatively, Wiedersheim-Paul, *et al.* (1978) classified the motivating factors as internal and external factors. Internal factors have their origins in the firm corporate setting like unique

product or unused resource capacity (Morgan, 1997). On the other hand external factors are associated with the firms' external environment (domestic or foreign environment) such as government export related incentives or foreign market opportunities (*ibid*). Often external motivating factors are considered as reactive and internal as proactive (Leonidou, 1995a). However, this assumption may be problematic since some external factors have proactive nature like identification of foreign opportunities while some factors internal to the firm may have reactive nature, for instance unutilized production capacity (*ibid*).

In accordance with Albaum *et al.*, (1989) classification matrix, Leonidou (1995a) and Morgan (1997) provided four categories of motivating factors: internal/reactive, internal/proactive, external/reactive and external/proactive, illustrated in table 2. This integrated classification of export motivating factors is more comprehensive and has a greater explanatory power than the two aforementioned independent classifications (Morgan, 1997). Based on the information in the table (Leonidou, 1995a; Morgan, 1997), the four categories of export motivating factors can be explained as follows:

- The *internal/reactive* factors indicate export initiation as a response to changing conditions that are reflected in the internal environment of the firm,
- The *internal/proactive* factors are associated with firm's unique competences or interest in taking advantage of market opportunities again reflected in the internal environment of the firm,
- The *external/reactive* factors denote export initiation as a response to changing conditions originating from the domestic or/and foreign surroundings of the firm, and
- The *external/proactive* factors are related with firm's unique competences or interest in taking advantage of market opportunities steaming from the domestic or/and foreign environment of the firm.

Table 2: Export motivating factors classification matrix

Behaviour	Locus	
	Internal	External
<b>Reactive</b>	Accumulation of unsold inventory through overproduction	Initiation or expansion of exports by domestic competitors
	Availability of unutilized production capacity	Intense competition within domestic market
	Need to offset the effects of seasonality	Receipt of unsolicited orders from abroad
	Need to reduce dependence on and risk of domestic market	Saturation or shrinkage of domestic market
	Stagnation or decline in domestic sales or profits	Logistical proximity to sea ports, airports etc. Regulatory issues pertaining to reductions in import tariffs and relaxed product regulations
<b>Proactive</b>	Achievement of economies of scale from exporting	Encouragement by external agents or organizations
	Existence of special managerial interest	Identification of better opportunities abroad
	Production of goods with unique qualities	Possession of exclusive info on foreign markets
	Possession of technological, financial or marketing competitive advantage	Provision of government export-related incentives
	Potential for extra sales, profits or growth resulting from exporting	Receipt of orders from trade fairs or missions

Source: Adapted from Leonidou (1995a) and Morgan (1997) in accordance with Albaum *et al.*, (1989)

Hindering factors can be classified as internal or external (Cavusgil, 1984), and domestic or foreign (Leonidou, 1995b) depending on their locus area. Internal hindrances arise from the internal environment of the firm while external stem from the domestic or foreign environment where the firm operates (Cavusgil, 1984). Furthermore, domestic hindrances are found in the domestic country where the firm is located while foreign are identified in the foreign markets where the firm intends to or already operates (Leonidou, 1995b).

Leonidou (1995b) and Morgan (1997) integrated the aforementioned factors in four categories: internal/domestic, internal/foreign, external/domestic and external/foreign. The classification matrix on export hindrances is presented in table 3. Leonidou (1995b) and Morgan (1997) describe the four categories as follows:

- The *internal/domestic* hindrances originate from the domestic country and are reflected on the internal setting of the firm,
- The *internal/foreign* hindrances stem from the foreign environment of the firm and are reflected on their export activities,
- The *external/domestic* hindrances originate from the domestic environment, are reflected on the activities of the firm in the foreign environment and are beyond the control of the firm, and
- The *external/foreign* hindrances arise from the foreign environment, are reflected on the foreign activities of the firm and are beyond the control of the firm.

*Table 3: Export hindering factors classification matrix*

<b>Locus area</b>	<b>Internal</b>	<b>External</b>
<b>Home</b>	Inadequate or untrained staff for export activity	Difficult handling of documentation and procedure requirements
	Insufficient production capacity	Lack of governmental assistance, incentives and promotion programs
	Lack of managerial personnel or time	
	Shortage of working capital to finance exports	
	Limited info to locate or analyze foreign markets	
	Management desire and inherent interest in satisfying domestic demand	
<b>Foreign</b>	Different product standards or specs abroad	Different foreign consumer habits or attitudes
	Difficult or slow collection of payments from abroad	Difficult to understand foreign business practices
	Difficult to locate or obtain adequate representation	Existence of language or communication problems
	High risk or costs involved in selling abroad	Imposition of tariff barriers and regulatory import controls by foreign governments
	Inability to offer competitive prices abroad	Keen competition in foreign markets
	Lack of or inadequate foreign distribution channels	Unfavourable or fluctuating foreign exchange rate
	Problematic transport or high shipping cost	Restrictions imposed by foreign rules or regulations

Source: Adapted from Leonidou (1995b) and Morgan (1997)

Motivating and hindering factors may be present at different stages of export development, including pre-export, early and advanced stages (Wiedersheim-Paul, *et al.*, 1978; Fillis, 2002). Even in the same stage, firms may have different perceptions over those factors (Katsikeas and Piercy, 1993; Leonidou, 1995c). The perception on the motivating and hindering factors and how they will influence the initial and ongoing exporting activities depends on various background forces stemming from three areas: decision maker characteristics, firm specific characteristics and the characteristics of the external environment (Katsikeas and Piercy, 1993; Leonidou, 1995a; 1995c).

*Decision maker characteristics* that may influence exporting are divided in two broad categories: objective and subjective (Leonidou, *et al.*, 1998). Objective characteristics include various personal or cultural characteristics of the decision maker such as demographics, educational background, professional experience, language proficiency, foreign travel and time spent abroad. Subjective characteristics are related with the attitudes, perceptions and behaviour of the decision maker including: risk tolerance, quality and dynamism, flexibility, commitment, innovativeness and perception on risk, cost, profit, growth and complexity of foreign markets. The characteristics of the manager will influence the capability of the firm to recognize foreign market opportunities and therefore initiate, develop or sustain international activities (Katsikeas and Piercy, 1993).

*Firm specific characteristics* that may influence export activities include: firm objectives, nature of the product, past experience, tangible (financial, physical and technology) and intangible resources (human resources and network relationships) and strategic orientation (Wiedersheim-Paul, *et al.*, 1978; Coviello and Munro 1995, 1997; Jones and Coviello, 2005).

*Environmental characteristics* include: characteristics of the domestic and the foreign markets such as size, potential and export intensity, industry characteristics including export, knowledge and technological intensity as well as the characteristics of the foreign environment in terms of hostility, intensity and dynamism (Jones and Coviello, 2005).

In addition, the perception on the motivating and hindering factors within firms may differ according to their characteristics such as the firms' size, export involvement, international experience and export approach (Piercy, 1981; Katsikeas and Piercy, 1993; Leonidou, 1995a; 1995c). It may be suggested that smaller firms will have different perceptions on the factors influencing export activities due to their resource constraints. However, Katsikeas and Piercy, (1993) did not find relationship between the firms' size and their perception on export factors. On the other hand, the authors provide evidence that firms' perceptions are influenced by the export involvement (ratio of total to export sales) and the international experience (number of years since the initial export) of the firm. Piercy (1981) found that the export approach adopted by firms have influence on their perceptions i.e. firms actively and aggressively seeking foreign market opportunities will be more motivated to engage in exporting.

In the last decade, the internationalization literature is shifting its focus towards networks and their role on the international activities of firms (McAuley, 2010). That is because developing and maintaining relationships with customers, suppliers and intermediaries are less imitable competitive advantage for the firms (Cavusgil, *et al.*, 2005). Researchers suggest that international activities are driven by the group of network relationships that the firm develop and sustain rather than its strategic approach and firm specific advantages (Fillis, 2001). Moreover, Leonidou and Katsikeas (1996) argue that export development literature does not offer sufficient explanation of the export development process and propose that the exchange relationships between the export supplier and the customer in the foreign market should be used in future research. The following section gives insight in this field.

## 2.2 Networks

### 2.2.1 Definition and forms of networks

Different research streams in the literature emphasize the importance of business networks as well as so called social networks for the internationalization of firms. According to the social exchange theory business networks are defined "*as a set of two or more connected business relationships, in which each exchange relation is between business firms that are conceptualized as collective actors*" (Emerson, 1981, cited in Anderson, *et al.*, 1994, p.2). Similar, Blankenburg Holm, *et al.*, (1999) define business networks as "*two or more connected business relationships*" (p.473). A basic assumption is that as exchange occurs, firms learn about each other and, as a result of that experience and future expectations, establish a long term relationships (Anderson *et al.*, 1994). The relationships in the network can be direct between the firm and the other actors in the network or indirect through those actors with other suppliers, customers and others (Johanson and Mattsson, 1988; Anderson *et*

*al.*, 1994). Such networks are considered to be naturally developed (Chetty and Blankenburg Holm, 2000).

Another stream in the literature highlights the role of social networks (Ellis, 2000; Ellis and Pecotich, 2001). According to the social network theory information are transferred through personal networks (*ibid*). Ellis (2000) and Ellis and Pecotich (2001) emphasize that the social relationships of the decision maker are very important for the internationalization of the firm.

A group of researchers investigated the impact of network relationships on early internationalizing firms (Coviello and Munro, 1995, 1997; Coveillo, 2006). These studies identify that internationalization is influenced by business and social relationships. Business relationships are relationships developed through interaction between firms while social relationships are personal relationships with family members or friends. The so called social capital generated by the social and business based relationships creates international business opportunities (Coveillo, 2006).

Chetty and Blankenburg Holm (2000) argue that literature mainly considers networks that evolve organically and is insufficient in explaining the influence of formal structured networks in the internationalization of firms. Similarly, Brito (2001) criticises the network approach for focusing on informal and emergent networks despite that formal networks are recognized in the literature as well. In addition, Johnsen and Johnsen (1999) argue that the internationalization literature considers relationships developed between suppliers and customers rather than formal groups of competitors in the domestic market.

In a study about the internationalization of New Zealand's manufacturing firms Chetty and Blankenburg Holm (2000) use the social exchange theory to describe how members in the network, through interaction, naturally develop relationships to internationalize. At the same time they incorporate formal structured networks and find that firms make use of organically, developed as well as formal structured networks, when they internationalize (*ibid*). In their study the formal structured networks are represented by different forms of associations that encourage collaboration on various issues within the members of the network.

Rosenfeld (2001) defined formal networks as groups of companies with limited number of members that share common goals. Formal networks are especially important for the wine industry. This form of collaborative behaviour provided the wine industries, especially from the New World with international success (Hall and Mitchell, 2008). Formal networks like local wine associations or wine cooperatives offer a number of benefits to individual firms such as: joint promotional activities, exchange of know-how or information on new markets (*ibid*).

Based on the above discussion, networks may evolve organically or through a formal arrangement, while the actors in the network can be either individuals or firms. The key features of the different forms of networks identified in the literature are presented in table 4:

Table 4: Forms of networks

Author	Form of network	Actor	Description
Coviello & Munro, 1995, 1997; Ellis, 2000; Ellis & Pecotich, 2001; Coveillo, 2006	Personal	Individuals	Relationships developed through social interaction between individuals
Anderson, <i>et al.</i> , 1994; Coviello & Munro, 1995, 1997; Blankenburg Holm, <i>et al.</i> , 1999; Coviello, 2006	Business	Firms	Relationships developed through interaction between firms
Johnsen and Johnsen, 1999; Chetty & Blankenburg Holm, 2000; Rosenfeld 2001	Formal structured	Firms	Planned formal group with limited number of members that share common goals

Source: compilation from various authors

In addition, Peng and Ilinitch (1998); Chetty and Blankenburg Holm (2000) and Ellis and Pecotich (2001) emphasize the importance of mediated relationships in the internationalization. In this case an intermediary firm as a third party initiate the establishment of relationship between two actors. Those intermediary firms may be domestically or overseas based (Peng and Ilinitch, 1998).

In conclusion, different forms of networks exist in the literature. Therefore, for purposes of this thesis, networks are defined as a:

*Set of personal and business relationships as well as relationships with agents, traders, consultants, formal associations and any other involved party that contributes to the internationalization of the firm.*

## 2.2.2 Networks and internationalization

The recent focus on networks in the internationalization literature is due to their important role for the internationalization of firms. Johanson and Mattsson (1988) argue that firms' strategy and decisions regarding the internationalization process is influenced by network relationships. Similarly, Coviello and Munro (1995; 1997) suggest that the internationalization of firms is not only a strategic decision of managers but also strongly affected by opportunities resulting from the network relationships between firms and individuals. According to these findings, internationalization is seen as a balance between strategic reasons and opportunities created through the existing and new network relationships. This is in line with the findings of Coveillo (2006) that the internationalization is a result of intended and unintended design.

Networks are especially important for the initial stages of internationalization (Coviello and Munro, 1995; 1997; Ovaitt and McDougall, 2005; Coviello, 2006). Based on these studies the internationalization, especially of the small and medium size entrepreneurial firms is initiated by their networks. This is in line with the Johanson and Mattsson (1988) and Johanson and Vahlne (2003) assumption that networks can be seen as bridge to international markets.

Networks provide international opportunities for firms. Through networks, firms establish contacts and gain knowledge and experience about international markets (Johanson and Mattsson, 1988; Coviello and Munro, 1995; 1997; Chetty and Blankenburg Holm, 2000; Johanson and Vahlne, 2003). For instance, a network can provide firms with information or contacts with new potential international partners. Networks are intangible resources for the

firms' growth (Coviello, 2006) because they provide market access, distribution channels and contacts and thus influence the internal and external development of firms (Coviello, 2006). Networks become more complex and grow over time (Anderson, *et al.*, 1994; Coviello, 2006).

Coviello and Muro (1995; 1997) and Coviello (2006) argue that the firm's decision regarding which foreign markets to be entered is strongly influenced by networks. Business relationships between firms are very important for the market selection process and often are more helpful than the firm's individual proactive identification process (Coviello and Munro, 1995). This is in line with the finding of Coveillo (2006) that business relationships are main initiators for the initial internationalization. On the contrary, other studies propose that social relationships of the decision maker act as trigger for the initial internationalization of firms (Ellis, 2000; Ellis and Pecotich, 2001). Through social relationships, individuals learn about foreign opportunities and establish new contacts (*ibid*).

The studies of Coviello and Muro (1995; 1997) discuss the influence of network relationships on the market selection process and subsequent entry to psychically close markets. Ojala (2009) provides evidence that unlike entry to psychically close markets, the decision for entering distant market is a result of the firm's own strategic reasons rather than influenced by networks. In addition Ojala (2009) adds that the relationships initiated by a third party (intermediaries) are essential for firms without any developed relationships with international markets. The intermediaries may be consultant (Ojala, 2009) and trading firms (Peng and Ilinitich, 1998).

The previous subsection of the thesis (2.2.1) identified that the network approach focuses on informal and emergent networks (Chetty and Blankenburg Holm, 2000; Brito, 2001). Two studies examining internationalization through both organically developed and formal networks are identified in the literature during the research process (Johnsen and Johnsen, 1999; Chetty and Blankenburg Holm, 2000). The findings of those studies provide evidence that relationships with formal groups of competitors (Johnsen and Johnsen, 1999) and different forms of associations (Chetty and Blankenburg Holm, 2000) located in the domestic market provide firms with knowledge and access to international markets.

Networks are generally seen as initiators of market development. However, networks may inhibit internationalization as well (Coviello and Munro, 1995; 1997). Networks may constrain firms in developing new relationships and pursuing specific marketing opportunities (Coviello and Munro, 1995). On the other hand, the international opportunities that arise from networks may be lost due to the passive attitude of decision makers (Ojala, 2009). It is up to the decision maker to recognize the international opportunities and decide the relationships to be developed (Chetty and Blankenburg Holm, 2000).

## 2.3 Conceptual framework and research questions

The theoretical perspective and literature review chapter identified that a single theory cannot explain the internationalization process of firms and that the process is best understood by integration of different theories in the field. Following this suggestion, the thesis presented the traditional and the network approach as two of the most commonly applied approaches in the internationalization literature as well as an integrated model comprised of three different types of firms, developed on bases of both approaches. It was also emphasized that the behaviour of firms along their international path is influenced by a number of motivating and hindering

factors and that they should be examined together. The chapter also identified that those factors stem from three main areas: the decision maker characteristics, firm specific characteristics and the external environment of the firm. Furthermore, an emphasis was placed on the role of network relationships as a firm specific characteristic that may influence the international strategies and decisions of firms. Accordingly, three types of networks were identified in the literature: business, personal and structured networks.

On the bases of the above discussion, the thesis integrates: the traditional and the network approach, the integrative model of the small firm internationalization, the motivating and hindering factors as well as the key factors (the decision maker characteristics, firm specific characteristics and the external environment) in order to *describe, explain and understand how Macedonian wine producers internationalize*. An outline of the integrated conceptual framework comprised of the three components is presented in figure 2.

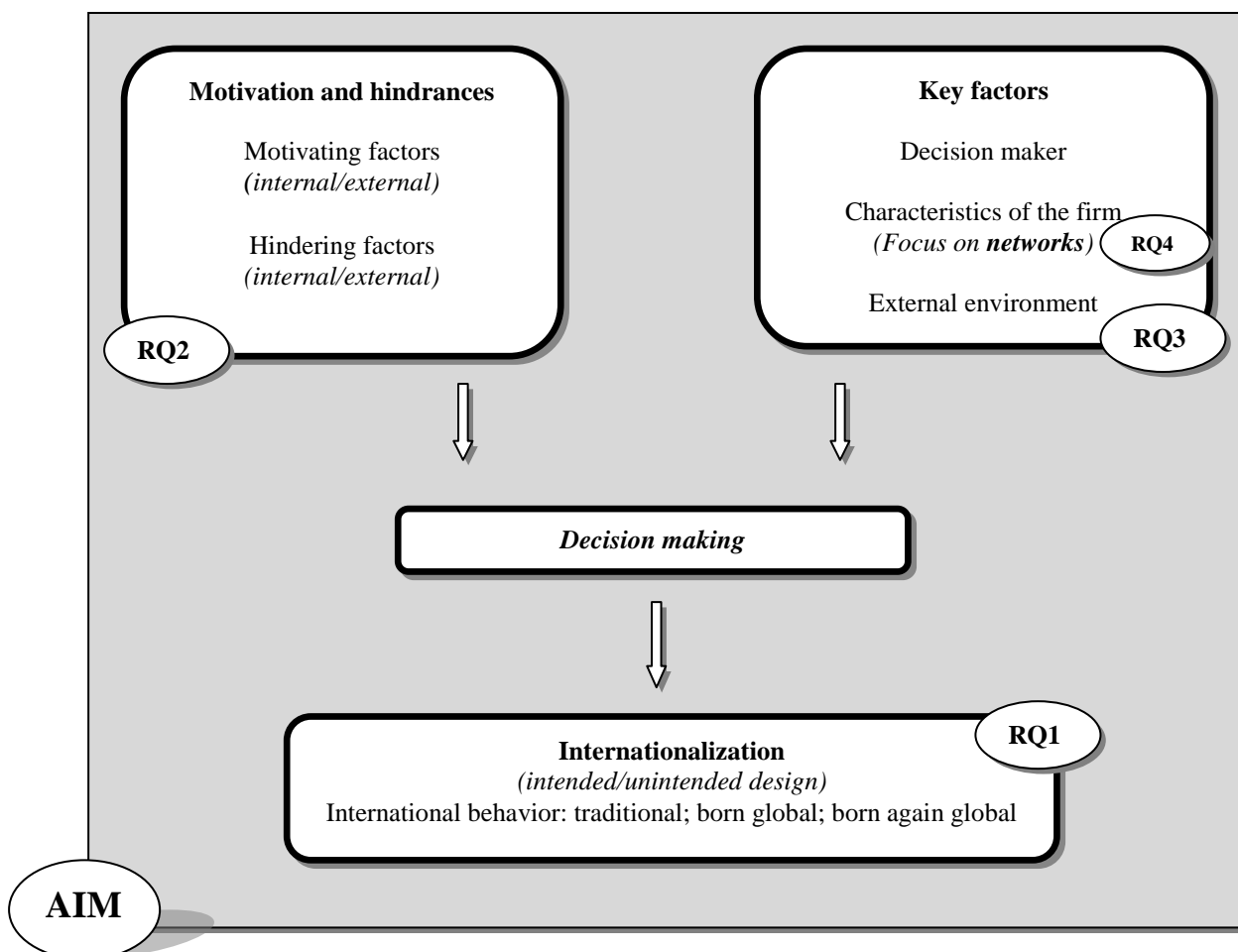


Figure 2: Illustration of the conceptual framework

Source: Developed for the thesis

In line with the aim of the thesis and the conceptual framework developed on bases of the reviewed literature in the field, four research questions, divided in two themes (Internationalization process, and Networks and internationalization), are formulated to guide the research, as follows:

### **Internationalization process:**

#### International behaviour:

RQ 1: *How do Macedonian wine producers internationalize?*

#### Motivating and hindering factors:

RQ 2: *What are the main motivating and hindering factors the Macedonian wine producers are faced with and how do they influence the process?*

#### Key factors:

RQ 3: *What are the key factors influencing the internationalization process of the Macedonian wine producers and how do they influence the process?*

### **Networks and internationalization:**

RQ 4: *How do networks influence the internationalization process of the Macedonian wine producers?*

The first theme (Internationalization process) is divided in three sections that correspond to the three sections which constitute the conceptual framework (international behavior, motivating and hindering factors, and key factors).

The first research question (RQ1) aims to describe the international behavior of the Macedonian wine producers, starting with their pre-export activities, i.e. how do they learn about new foreign market opportunities, followed by their criteria when choosing foreign markets, as well as the influence of the psychic distance on their international activities. Further, it will provide information on their international activities in chronological order, since their export debut to present time, including the speed of expansion and entry modes.

The purpose of the second research question (RQ2) is to identify why the wineries decide to expand their operations outside national boundaries as well as the main reasons that hinder the process. After the identification of those factors, the attempt is to determine how they affect the international behavior of the Macedonian wine producers.

The third research question (RQ3) aims to identify what are the main characteristics of the wineries (such as international objectives and approach, network relationships etc.), of the decision maker (objective and subjective characteristics) and the environment (domestic and foreign) where the wineries operate or intend to, that influence their international activities. Besides, the purpose is to determine how those key factors influence their internationalization process.

The second theme (Networks and internationalization) consists of one research question (RQ4) focused only on networks as a firm specific characteristic that may influence the internationalization process. Accordingly, this question aims to identify how different network relationships, such as business and personal relationships, as well as relationships developed through being a member of a wine association, influence the initiation and development on the international activities of the Macedonian wine producers.

The answers of the above research questions intend to fulfill the aim of this thesis that is to *describe, explain and understand how Macedonian wine producers internationalize.*

The next chapter introduces the research methods applied in the thesis.

## 3 Research methods

The following chapter presents the research methods adopted for the thesis:

- *Section 3.1* gives insight to the nature of the empirical study and the overall research strategy,
- *Section 3.2* discusses the methods for collecting research data, including the choice of subsector, sample size, sampling technique, as well as techniques used for data collection,
- *Section 3.3* discusses the credibility of the thesis, and
- *Section 3.4* presents the framework for data analyses.

### 3.1 Research strategy

#### 3.1.1 Qualitative research strategy

The aim of the thesis presented in Chapter 1 (Introduction) was to *describe, explain and understand how Macedonian wine producers internationalize*. Accordingly and on bases on the reviewed literature (Chapter 1, Introduction, and further specified in subsection 2.3, Conceptual framework and research questions) four research questions were formulated to guide the research as follows:

RQ 1: *How* do Macedonian wine producers internationalize?

RQ 2: *What* are the main motivating and hindering factors the Macedonian wine producers are faced with and *how* do they influence the process?

RQ 3: *What* are the key factors influencing the internationalization process of the Macedonian wine producers and *how* do they influence the process?

RQ 4: *How* do networks influence the internationalization process of the Macedonian wine producers?

In order to fulfill the aim and contribute to better understanding of the internationalization process of the Macedonian wine producers, the author collected and analyzed empirical data on how the wine producers from Macedonia approach the internationalization process and how the process is influenced by different factors. During the research process, no previous studies examining the internationalization process of the Macedonian wine producers were identified.

The research questions formulated to fulfil the aim (Chapter 2, Theoretical perspective and literature review) required a careful examination of the wine producers' views and practices related to the internalization process, implying an in-depth study. A deeper understanding of the phenomenon was achieved by implementation of qualitative research strategy as it "*focuses on up-close observation of behaviour in settings*" (Firestore, 1993, p.17) unlike quantitative research which is by many practitioners perceived as "*very remote from everyday practice and, therefore, of little use-at least when dealing with human aspects of organizational life*" (Alvesson and Deetz, 2000, p.60). The chosen qualitative research strategy provided deeper understanding of the internationalization process, as well as the important factors influencing the process based on the actors' real life experiences.

In their literature review Fillis (2001) and McAuley (1999; 2010), jointly covering a period from 1989 to 2009, found that the research regarding the internationalization process particularly for smaller firms is dominated by the quantitative approach. However, McAuley (2010) points out that there is an increased number of researchers that use the qualitative research approach in recent years. The findings from these studies suggest that additional qualitative research could be useful. In addition, Perry, *et al.*, (1988) and Coveillo (2005) state that a qualitative research strategy is most relevant when examining networks because it provides deeper understanding of the phenomena.

### 3.1.2 Case study

The overall adopted strategy for the research was a case study focused at the wine subsector in Macedonia, with the wineries from the subsector as the unit of analysis. Yin (1981) defines a case study as an empirical inquiry that looks into “(a) a contemporary phenomenon in its real-life context, especially when (b) the boundaries between phenomenon and context are not clearly evident” (p.59).

Following Yin’s definition a case study is a suitable research strategy for the empirical research for a number of reasons. First, the research investigates the internalization process of firms as contemporary phenomenon that occurs in a real-life context and the cases cannot be analyzed separately of their context. In other words, they are analyzed together with the impact from, and the interaction with their external environment. Second, the research questions require examination of the wine producers views and practices related to the internationalization process implying an in-depth, exploratory study. The purpose of an exploratory study is to “*get some feeling as to what is going on in a novel situation where there is a little to guide what one should be looking for...*” (Robson, 2002, p.182). Accordingly, the influence of different factors on the internationalization process of the Macedonian wine producers is not clearly evident and not yet investigated. Finally, none of the alternative research strategies offered in the literature meet the research requirements.

Given the research problem a multiple case study strategy is used in order to provide a cross-case analysis (Perry, 1998) and replication of findings (Robson, 2002). Robson (2002) argued that it is a common misconception when it is considered that a multiple cases may provide generalization at the level of a population. Accordingly the inability to provide general conclusions for a whole population is considered as a weakness of the case study approach. However, the findings of the research are not concerned with generalization to all wineries (statistical generalization) but rather with theoretical generalization (*ibid*).

## 3.2 Data collection

### 3.2.1 Choice of country and subsector

As was previously noted, multiple firms from the wine subsector in Macedonia were chosen in order to provide empirical evidence for the research. Macedonia is a small economy, relatively open to trade. However, comparing to other small open economies, like Sweden and New Zealand and others who dominate the internationalization literature, Macedonia is at a lower level of development. This difference may question the transferability of the results from other countries where the internationalization models are developed and applied, thus influencing the results of the research. However, the openness of Macedonia to international

trade, the dependence on exports and their importance for the national economy, makes the country suitable for this kind of research.

The wine subsector from Macedonia was chosen as it is export oriented and is a significant contributor to the national economy. The subsector is represented by older, formerly state owned, wineries and a significantly increased number of small wineries in the last couple of years. The differences between the wineries, regarding their presence in export markets, export intensity and international experience provided rich information for the research. In addition, research regarding the internationalization process of the Macedonian wine producers is lacking. It should be also noted that researchers (Rialp, *et al*, 2005, McAuley, 2010) suggest that other sectors than those dominating the internationalization literature (mainly knowledge intensive) should be included in future research.

### 3.2.2 Sample size

Generally, the literature suggests that the number of cases in a qualitative research is usually not determined in advance, but researchers should add cases until saturation is reached (Eisenhardt, 1989; Robson, 2002). Saturation is reached when “*further data collection appears to add little or nothing to what you have already learned*” (Robson, 2002, p.198). Morse (2000) summarizes several factors that influence the number of cases needed for saturation to be reached, as follows: the scope of the study, the nature of the topic, the quality of data, the amount of useful information gathered from participants and the qualitative method. If all of these factors are taken into consideration, the researcher cannot certainly predict the number of cases needed in order to reach saturation but can defend the number of cases estimated in advance (*ibid*).

However, in practice external factors such as time or financial resources may limit the collection of information (Eisenhardt, 1989; Robson, 2002). In that case researchers often plan the sample size in advance (Eisenhardt, 1989). Eisenhardt (1989) suggest that four to ten cases are enough to provide material for analysis. Fewer than that provide unconvincing empirical material while a larger number of cases are difficult to deal with (*ibid*). In reviewing literature regarding the number of cases in a sample, Perry (1998) found that two to four as minimum and ten to fifteen as maximum number of cases are suggested.

For the research, six wineries were targeted in advance and this sample size proved to provide a sufficient amount of information for saturation to be reached. The sampling technique by which those six wineries were chosen is discussed in the next sub section.

### 3.2.3 Sampling technique

The research used non random, purposive sampling technique in order to focus on cases of interest for the study based on information from prior literature (see Chapter 2, Theoretical perspective and literature review). The firm cases were targeted in order to satisfy the following criteria: wine producers located in Macedonia with small, medium and large production capacity which belong to at least one local formal network (wine association) and are currently engaged in export activities.

In order to ensure heterogeneity other characteristics of interest for the study including: year of establishment, international experience, export intensity and number of export markets for

every individual case, were taken into consideration. Eisenhardt (1989) suggest that different characteristics provide richer data for analysis.

Based on the above discussion six cases were chosen in advance. The main source for the identification of the wineries was the Register of Wineries in the Republic of Macedonia from 2008 prepared by the State Agriculture Inspectorate of the Ministry of Agriculture, Forestry and Water Economy. The register contains information about all registered wineries up to 2008, only with regard to their production capacities. In order to ensure that there were not large variations in the production capacities of the chosen wineries in the period between 2008 until present time, the author conducted an additional research based on wineries websites, reports, and consultations with experts from the field. Information regarding the firms' membership in local associations, engagement in export activities as well as other characteristics stated previously was identified from additional sources as well.

The characteristics of the chosen wineries on bases on the main criteria are presented in the following table (table 5) while a detailed presentation is provided in Chapter 4:

*Table 5: Characteristics of the wineries on bases on the main criteria*

Winery <sup>1</sup> Code	Location <sup>2</sup>	Production capacity (hl)	Export activities (number of countries)	Membership in a wine association
<b>S1</b>	Skopje	2 000	1	One
<b>S2</b>	Negotino	12 000	↑25	One
<b>M2</b>	Stip	100 000	↑16	One
<b>L3</b>	Kavadarci	550 000	↑15	One
<b>M3</b>	Gevgelija	145 000	3	One
<b>M1</b>	Demir Kapija	63 000	↑10	One

Source: Interviews

1 The wineries are presented following the same order in which they were interviewed (see references)

2 See Appendix 1 (map of Macedonia)

During the research process only one classification based on wineries production capacity was indentified. In view of that the wineries are classified as: wineries with production capacity up to 50 000hl, between 51 000 to 150 000hl and wineries with more than 151 000hl production capacity (DSVW 2010-2015, 2010). This classification is applied in the thesis and accordingly wineries are categorized as winery with small (up to 50 000 hl) production capacity, medium (varying between 51 000 to 150 000 hl) and large (more than 151 000 hl) production capacity<sup>3</sup>. Based on this information winery *S1* and *S2* are small production capacity, winery *M1*, *M2* and *M3* are medium production capacity and winery *L1* is large production capacity.

In addition to the interviews various sources such as websites, reports, suggestions from experts and magazines were used as basis.

<sup>3</sup> According to the authors opinion the limits within this classification should be lower as in Macedonia usually wineries with a production capacity exceeding 100 000hl are considered as large.

### 3.2.4 Techniques for data collection

The empirical material for the research was obtained by using a mixture of data collection techniques, with interviews being the primary source. According to Alvesson and Deetz (2000) interviews may provide the researcher with new information and ideas not considered previously. In addition interviews are a particularly suitable technique for examining networks as they allow the researcher to get closer to the phenomena and obtain more detailed qualitative data (Perry, *et al.*, 1998).

Taking into account the investigated phenomena, interviews were conducted with owners or managers from each winery as most relevant sources of information as they are directly involved in decision making regarding the internationalization process. The interview with *Winery MI* was realized partially with the owner and partially with the administrative assistant on behalf of the owner. After the identification process outlined in the previous section (3.2.3) the potential respondents were contacted through telephone. Right after the telephone conversation every winery received additional information through email (Appendix: 3, 4, 5, 6). At that stage they were informed about the research topic, the aim of the research, ethical consideration, and were invited to participate in a face to face interview. All of the contacted decision makers replied and agreed to take part in the research.

The interviews were conducted between June, 26 and July 23 in the firms' offices, located in Skopje or at their wine cellars. Each interview lasted approximately one hour and was guided by an interview guide (Appendix 7) prepared in advance with questions emerging from the theory (see Chapter 2, Theoretical perspective and literature review) divided in two themes, Internationalization process and Networks and internationalization.

The interviews were semi structured, mainly with open-ended questions. Semi-structured interviews are based on predetermined questions but are more flexible than fully structured interviews because they allow for modification of the questions based on the responses, as well as researcher believes of what is important for the study (Robson, 2002). Combined with the open-ended questions, which limits the discussion to the specific topic and provides no restrictions on the answers (*ibid*), this technique allowed the respondents to discuss other important issues related to the topic, of interest for the research. In order to avoid loss of control and concentrate on the topic the researcher used prompts in addition to some questions in order to suggest the range of possible answers to respondents.

The interviews were audio recorded, when feasible, transcribed and partially translated from Macedonian to English. During each interview the researcher made notes of information important for the research. A summary of each interview was sent to every respondent by email to confirm the truthfulness of the results. After this procedure, the results from the interview were used to produce a case study of each winery and as such were prepared for analysis.

In addition to the interviews, secondary data in form of reports from different organizations, other published materials as well as wineries websites was used to obtain richer information for analysis. The multiple sources of data collection allowed the researcher to triangulate the results.

### 3.3 Credibility

While in quantitative research the validity and reliability are established in standard means, in qualitative research those terms are not treated separately and terminology like credibility or trustworthiness is preferred to include both (Robson, 2002). In this research credibility/trustworthiness was addressed with regard to: description of empirical data, validity checking by respondents, full record of research activities and triangulation.

For accurate description of empirical data, the interviews were tape recorded where feasible and notes capturing all important information for the research were made in each interview. The results from the recorded interviews were transcribed and partially translated. A summary from the interview was sent for validity confirmation to every respondent. During the research process, the researcher kept a full record of activities including: interview transcripts, notes from the interviews and consultations with experts, emails and information gathered from other sources as well as details of coding and analysis. In addition two types of triangulation were applied, theory and data triangulation. Theory triangulation was applied by integration of different theories in the field (see Chapter 2, Theoretical perspective and literature review) while the use of couple of methods for data collection like interviews, documents and expert opinion allowed for data triangulation.

In addition credibility/ trustworthiness were addressed with regard to the source of information used in the thesis as well. First concerning the credibility of respondents as all of them are involved in decision making related to international activities of the firms they represent. Second the wineries that were chosen for the study account for high percentage of the total wine exports from Macedonia and almost all of them have a long international experience which makes them the most relevant source of information related to export activities. Finally, most of the published reports, other materials and statistical information used in the thesis are published from relevant institutions in Macedonia, such as the Ministry of Agriculture, Forestry and Water Economy.

The research process, described in details throughout the thesis, together with the appendices presented in the last chapter aimed to increase the credibility of the research and allow for future theoretical and methodological replication of the study by other researchers.

### 3.4 Framework for data analysis

The research was based on mixture of deductive and inductive thinking. Deductive thinking is based on prior theory while inductive thinking is applied to generate conclusions emerging from data (Perry, 1998). In view of that deductive thinking was applied at the beginning of the process with the review of the literature in the field. The previous theory was used as bases for formulation of the questions in the interview (see Appendix 7). However, as Perry (1998) suggested that case studies cannot be purely deductive or inductive as the two approaches inform each other during the process. In this thesis inductive thinking was applied because the internationalization although a widely researched area, there is not a single theory that can explain the process. In addition the thesis investigates the organizational behaviour and relationships which imply inductive thinking (Perry, 1998).

The process of analysis in the thesis was divided in three flows of activities (Miles and Huberman, 1994) including: reduction of qualitative data, organization and display of data, and drawing conclusions and verification.

In the first phase of the analysis, the qualitative data obtained from the interviews were transcribed, partially translated and summarized. In order to ensure anonymity every winery was assigned a code consisting of one letter and one number. The letter stands for the production capacity of the winery (*S* for small, *M* for medium and *L* for large production capacity) while the number (*1, 2, 3, 4, 5, 6*) represents the size of the winery within each group in increasing order. For instance, within the group *M*, representing the wineries with medium production capacity, *Winery M1* (63 000hl) has the smallest production capacity while the *Winery M3* (145 000hl) has the largest production capacity.

The results from the interviews as well as information from other sources were coded in categories as well as commented and reflected upon in form of memos. The codes were given in accordance with the research questions (RQ1, RQ2, RQ3 and RQ4) formulated in section 2.3 (Conceptual framework and research questions). The coding, memos and summary of the information obtained from the interviews and additional sources allowed the data to be reduced to information important for the research and, based on that, six individual case studies were developed. Each case was presented individually in Chapter 4 (Case findings) following the order of the interviews.

In the second phase of the analysis, the selected information was organized and displayed in tables again divided in four groups in accordance with the research questions. This allowed for further reduction of information and identification of similarities or differences between the cases.

In the last phase, conclusions were drawn and verified. First the data were analyzed in relation to the literature presented in Chapter 2 (Theoretical perspective and literature review) and presented in two themes (Internationalization process, and Networks and internationalization) followed by the discussion in relation to the theory and findings from previous studies and drawing conclusions at the end. During this process the data were compared in order for differences or relationships to be found as well as triangulated with the other sources of information.

The following chapter presents the case findings.

## 4 Case findings

This chapter presents the case findings and is organized in two sections:

- *Section 4.1* provides a short presentation of some characteristics of all wineries in the sample, and
- *Section 4.2* presents the findings from each winery individually.

### 4.1 Sample characteristics

The research is based on information gathered from a sample of six firms chosen to satisfy the following criteria: wine producers located in Macedonia with small, medium and large production capacity which belong to at least one local formal network and are currently engaged in export activities. These characteristics make firms in the sample homogenous with respect to the above criteria.

Interviews were conducted with decision makers from each winery because they are directly involved in decision making regarding the export activities of firms and therefore the most relevant source of information for the researched area. Table 6 shows that *Winery L1* has the highest specialization export manager followed by *Winery M2* while in other wineries, export decisions are owner responsibility (*S1, M3, M1*) or employee, responsible for export activities (*S2*).

The work experience of the respondents within the wineries varies from five to six years of experience (*Winery M2, L1*), since the establishment of the winery (*Winery S1, S2, M3*), or since the change of ownership (*Winery M1*). Respondents from *Winery S1, M2, L1* and *M1* have previous international experience. Most of the participants are younger (*S1, S2, M2, L1*) while others are middle age (*M3, M1*). All of them are foreign language speakers.

*Table 6: Respondents and their position in the firm*

Winery code	Respondents
<b>S1</b>	Two Owners
<b>S2</b>	Responsible for export
<b>M2</b>	Market Development Manager
<b>L1</b>	Export Manager for EU and Overseas Markets
<b>M3</b>	Owner
<b>M1</b>	Owner and Administrative Assistant

Source: Interviews

Characteristics of each winery including: the year of establishment, ownership status and number of full time employees, vineyard area in permanent ownership, amount of processed grape and production capacity are presented below in table 7.

The sample is represented by two old wineries dating from the end of 80' and beginning of 90' of the XX century (*L1, M1*), one winery established at the end of 90' (*S2*) and three newer build from 2000 onwards (*M3, M2, S1*). *Winery L1* and *M1* are the oldest in the sample and were under different ownership over time. In present time *Winery L1* is owned by local and

foreign shareholders while *Winery M1* becomes a family business in 2000 when bought from a local firm established in 1991. *Winery M2* (established in 2002) and *Winery M3* (established in 2000) were built for the needs of local firms engaged in wine trade years before the establishment of the wineries. *Winery S1* established in 2005 is youngest within the sample. All wineries (*S1*, *S2*, *M1*, *M3*) except for *Winery M2* and *L1* are family businesses.

Table 7: Firm characteristics

Code	Year of establishment	Ownership	Employees	Vineyard area (ha)*	Processed grape (t)	Production capacity (hl)
<b>S1</b>	2005	Local, family business	3	0	30-50	2 000 (bottled wine)
<b>S2</b>	1998	Local, family business	32	60	450-550	12 000 (bottled wine)
<b>M2</b>	Firm 1989 Winery 2002	Local	100	60	12 000	100 000 (60% bulk, 40% bottled)
<b>L1</b>	1885	Shared (local and foreign)	350	500	30 000	550 000 (10% bulk, 90% bottled)
<b>M3</b>	Firm 1991 Winery 2000	Local, family business	52	120	18 000	145 000 (bulk wine)
<b>M1</b>	Firm 1991 Winery 1928	Local, family business	42	0	12 000	63 000 (60% bulk, 40% bottled)

Source: Interviews

\*In direct ownership

Based on the classification adopted for the thesis *Winery S1* and *S2* would fall into the category of small production capacity, *Winery M1*, *M2* and *M3* in medium production capacity and *Winery L1* in large production capacity. The latest established winery (*S1*) is smallest in the sample while the oldest (*L1*) is the biggest not only on bases on its production capacity but according to number of employees, vineyard area in direct ownership and the amount of processed grape as well.

The smallest wineries in the sample (*S1*, *S2*) produce only bottled wine while wineries with medium production capacity (*M1*, *M2*) are focused more towards production of bulk wine with *Winery M3* being the only winery in the sample that produces solely bulk wine. The largest winery (*L1*) only recently changed its focus towards bottled wine production with only 10% of the total production being sold as bulk. Similarly, *Winery M1* changed its orientation from 100% bulk to 60% bulk and 40% bottled wine. This trend shows that wineries are gradually moving towards production of higher quality bottled wine.

The following table (Table 8) presents the international exposure of each winery including: export intensity (share of exports in total production), foreign markets where wineries are present and their total number. As can be seen from the table, only *Winery S1* has a stronger domestic focus while other wineries export 50% or more of their total wine production. Two wineries (*M2*, *M3*) have very high export intensity, 85% and 100% respectively. It is interesting to note that *Winery M3* which is 100% export oriented is present in only three foreign markets.

Table 8: International exposure

Winery code	Export* intensity	Export markets	Number of export markets
S1	10%	Netherlands	1
S2	50%	Serbia, Croatia, Bosnia and Herzegovina, Germany, Denmark, Sweden, Switzerland, USA, Canada, Hong Kong, China, Australia, Africa, etc.	↑25
M2	85%	Serbia, Croatia, Bosnia and Herzegovina, Slovenia, Germany, Ukraine, Russia, China, etc.	↑16
L1	60%	Serbia, Germany, Scandinavia, Switzerland, Hong Kong, USA, Australia, etc.	↑15
M3	100%	Serbia, Germany, Canada	3
M1	50%	Serbia, Croatia, Bosnia and Herzegovina, Germany, Canada, USA, etc.	↑10

Source: Interviews

\* Share of exports in total production (%)

All wineries (*S2*, *M1*, *M2*, *L1*) except for *Winery S1* and *M3* are present in 10 and more foreign markets. For a simplicity and as they are usually referred in Macedonia, the foreign markets are divided in three broad groups. Those are: regional markets (the countries that used to be part of Yugoslavia: Serbia, Bosnia and Herzegovina, Montenegro, Croatia and Slovenia, as well as the other neighbouring countries), European markets and other more distant markets. It seems that regional markets followed by Germany are common destination for the wine of almost all wineries in the sample. That is not evident for *Winery S1* present to only one foreign market (Netherlands) which is reasonable since this winery had its export debut only a year earlier (in 2010).

## 4.2 Single case presentation

### Winery S1

Winery S1 is a small family business established in 2005 as a result of long family tradition of making wine. It has three employees, all family members with previous international experience and education in the field. This winery is focused on producing small quantities of bottled wine from the following varieties: Riesling, Cabernet Sauvignon, Vranec and Merlot. Grapes are bought from the Tikves wine district as the winery does not own vineyards. The quantity of processed grapes varies from year to year and on average ranges between 30 to 50 tons per year. From the total production capacity of 2 000hl only 30% is utilized at the moment. The winery is open for visitors and wine degustation in the 25 seat wine tasting room. The winery has a strong domestic focus; around 90% of the total production is sold on the domestic market while the rest (10%) is exported to the Netherlands.

*Table 9: Winery S1, Characteristics and export exposure*

<b>Year of establishment</b>	2005
<b>Ownership</b>	Local, family business
<b>Number of employees</b>	3
<b>Vineyard area (ha)</b>	0
<b>Processed grapes (t)</b>	30-50
<b>Production capacity (hl)</b>	2 000 (bottled wine)
<b>Wine tourism</b>	25 seat wine tasting room
<b>Export intensity</b>	10%
<b>Number of export markets</b>	1
<b>Export markets</b>	Netherlands

Source: Interview

The winery learns about new market opportunities through business contacts and wine fairs and is oriented towards finding larger markets where it would be easier to sell the wine. According to the respondents, identification of foreign markets is difficult and despite their own process of identification it's hard to establish contacts with foreign customers. On the other hand there is interest from foreign markets for Macedonian wine. A distributor from the Netherlands interested in importing wine from Macedonia has contacted them and as a result the winery made its export debut in 2010, five years after inception. The relationship with the distributor is still not stable, however respondents add that the development of more stable business relationships takes time.

The winery is mainly motivated to engage in foreign markets due to the low consumption of wine on the domestic market. Their main international objective is to increase their presence to new international markets, to return the investment and invest in modernization of the winery. However, there are factors that act as obstacles for their export activities including: finance needed for individual presentation on large wine fairs, high price of Macedonian wine compared to others, lack of joint marketing of Macedonian wineries and procedure requirements for entering foreign markets. According to the respondents, their export activities are not supported by the government.

The owners consider personal relationships as very important for the internationalization of their winery, while through developed relationship with their foreign partner they share information, mainly about wine production. Besides, the winery is a member of one local wine association but the respondents do not see that belonging to this wine association increases their international opportunities. Instead, they consider that another association should be formed comprised of wineries with similar characteristics aimed at increasing their presence in the same foreign markets, and the activities of which should be supported by the government. Furthermore, respondents believe that none of the above mentioned relationships has ever influenced their decision to expand in foreign markets.

## **Winery S2**

S2 is the first private winery in Macedonia, established in 1998. The total initial capacity was about 1 200hl, while today it is a winery with a total production capacity of 12 000hl. *Winery S2* has its own vineyards, covering about 60ha with a diverse range of grape varieties, including: Cabernet, Merlot, Chardonnay as typical international varieties, as well as some

untypical for the region such as: Sangiovese, Tempranillo, Verdot. On those 60ha between 450 and 550t of grape are produced every year. The wine is sold as bottled on the domestic and foreign markets. The presence on the domestic market is nearly 50% of the total production while the rest is exported to foreign markets with tendency for exports to grow. The winery has a wine tasting room, while accommodation facilities are in the future plan.

*Table 10: Winery S2, Characteristics and export exposure*

<b>Year of establishment</b>	1998
<b>Ownership</b>	Local, family business
<b>Number of employees</b>	32
<b>Vineyard area (ha)</b>	60
<b>Processed grapes (t)</b>	450-550
<b>Production capacity (hl)</b>	12 000 (bottled wine)
<b>Wine tourism</b>	Wine tasting room
<b>Export intensity</b>	50%
<b>Number of export markets</b>	More than 25
<b>Export markets:</b> Serbia, Croatia, B&H, Germany, Denmark, Sweden, Switzerland, USA, Canada, Hong Kong, China, Australia, Africa...	

Source: Interview

*Winery S2* learns about new foreign opportunities through their own identification process, personal and business relationships, internet, wine fairs and presentations. Usually “*We are open for collaboration with all interested parties...*” (*Winery S2*, personal communication, 2011-06-29). However, some markets are chosen on the bases of the reliability of the foreign partners. The respondent explained that “*In order to invest one needs to be confident in their business partner. It is not easy to invest in a product, brand or a company and not be able to sell them eventually*” (*Winery S2*, personal communication, 2011-06-29).

Wine is exported in more than 25 foreign markets including: regional, European and overseas. Exports are mainly concentrated in the European markets, including the region, i.e. “*We are concentrated most on the European market, as it is closest and realistically optimal for work*” (*Winery S2*, personal communication, 2011-06-29). The first export was in Serbia where the winery established a firm only one year after the inception (1999). Furthermore expansion continues to other regional markets (Croatia, Bosnia and Herzegovina), than European markets (Germany, Denmark, Switzerland) and in 2003/2004 the winery began exporting to more distant markets (Hong Kong and Australia). Generally, the collaboration with the distant markets is not always at a high level as it sometimes ceases and continues at a later stage. Most foreign markets are entered directly with importers or distributors, while agents are not commonly used.

The main motivation for *Winery S2* to get involved in foreign markets is the limited domestic market, long working and export experience of the firm and a product with high quality that can be sold at the foreign markets. Due to the different foreign consumer preferences the winery is flexible and can adjust its offer to the consumer taste. Besides, export may be stimulated by the demand because, as the respondent puts it, there is interest from the foreign markets for Macedonian wine. In those cases the winery uses “*...both push and pull [strategies], there can be no limitations when you try to sell ...*” (*Winery S2*, personal communication, 2011-06-29).

The objective of the winery is to increase its presence to new international markets. For Winery S2 *“There are not obstacles, all the countries in the world are open”* (Winery S2, personal communication, 2011-06-29). The only hindrance is the finance for,

*“...wine marketing because of the existence of stiff competition, it is very time consuming process and requires significant finances. In addition it needs to be specifically and precisely focused, in order to be beneficial”* (Winery S2, personal communication, 2011-06-29).

According to the respondent who does not have previous international experience, the past international experience of the owners (respondents' relatives) and the thirteen years of working and exporting experience are valuable for the firm activities. Accordingly, the respondent explains:

*“...the sole fact that we export to the USA, China, Nigeria, Canada and Australia witnesses that we have solid capacities to so because different specific requirement and procedures exist on the different markets...we need to follow various issues closely to understand the flow of the process...”* (Winery S2, personal communication, 2011-06-29).

It seems that developed business and personal relationships are very important for the international growth of the firm. Through business relationships they share information, foreign contacts and have common marketing activities. Regarding the role of personal relationships, the respondent adds that *“In general everything is based on that, people make businesses, business does not make people, thus personal relationships lead to collaboration”* (Winery S2, personal communication, 2011-06-29).

S2 is member of one local wine association. For the winery, the credibility of the association is very important, i.e. who are the members and how powerful is the association to negotiate with foreign partners and with the domestic government. The respondent clarifies *“...we are always stronger when we can negotiate together, our bargain power is greater when we are bigger than when we are alone and smaller”* (Winery S2, personal communication, 2011-06-29).

The association also improves the communication and collaboration regarding export activities among the members. According to the respondent:

*“The level of collaboration is high and we cooperate...it is our common interest to export wine...our [domestic] market is a different issue, here we are all competitors and behave differently”* (Winery S2, personal communication, 2011-06-29).

When asked about the role of the association and the personal and business relationships on the firm decision making, the respondent said *“it is a circle”* (Winery S2, personal communication, 2011-06-29), the contacts and relationships of the association are used on a firm level and vice versa.

## **Winery M2**

Winery M2 was built in 2002 as part of a Macedonian company established in 1989 which main activity was wine trade. It is a Greenfield investment build for the needs of the company

with the purpose of placing wine and wine products on the international market. The winery has 80ha vineyards under its ownership and manages with another 600ha from subcontractors, required to produce the grape according to the winery standards. Around 12 000t grape is processed every year from a diverse range of varieties including: Smederevka, Zilavka, Riesling, Chardonnay, Muscat from white and Vranec, Kratosija, Cabernet Sauvignon and Merlot from red varieties. *M2* is customer oriented winery and from the beginning is made to be flexible and to quickly respond to the customer needs in terms of taste and packaging (bottle, Bag in Box and PET PAK packaging, all in various volume). The total production capacity is 100 000hl of which 60% is sold as bulk and the rest (40%) as bottled. From the total production around 85% is exported to foreign markets.

*Table 11: Winery M2, Characteristics and export exposure*

<b>Year of establishment</b>	Firm 1989; Winery 2002
<b>Ownership</b>	Local
<b>Number of employees</b>	100
<b>Vineyard area (ha)</b>	60
<b>Processed grapes (t)</b>	12 000
<b>Production capacity (hl)</b>	100 000 (60% bulk, 40% bottled)
<b>Wine tourism</b>	No
<b>Export intensity</b>	85%
<b>Number of export markets</b>	More than 16
<b>Export markets:</b> Serbia, Croatia, Bosnia and Herzegovina, Slovenia, Germany, Ukraine, Russia, China...	

Source: Interview

Overall, the winery learns about new foreign opportunities through its own research process as well as discussions with acquaintances, acquaintances of employees and the firm. Foreign markets are chosen on bases of the following criteria: how sustainable is the market i.e. is it worth to invest and expect return on investment, growth of wine consumption and the economic situation in a given country, as well as what can be presented in the foreign market as a winery and country because they are dependent of the image bearing Macedonia.

One year after its establishment in 2003, the winery started to export to Russia through a sister company with already established contacts in the foreign market. Soon after, they increased their presence to other distant markets, like Germany and Ukraine, facilitated by previous operations of the company, while they returned later (2007/08) to the regional markets (Serbia, Croatia, Bosnia and Herzegovina, and Slovenia). The exports of bulk wine are mainly concentrated in Germany, Russia and Ukraine. Their wine is sold in the domestic market since 2002 but systematic entrance was made in 2008. Exports are conducted through three different modes: directly to the customers, through a distributor, or through a sister firm in the foreign market.

Main forces that motivate *M2* to engage and sustain export activities are the limited domestic market and the continuous sale of wine to markets that can accept the quantity the winery produces. However, they face problems due to high transportation costs and visa requirements for the winery staff to be able to travel to some of the markets (ex: Russia and China). Another problem is finance needed for investment in foreign market such as market research, visits to the foreign market, marketing campaigns etc. Sometimes they face restriction

imposed by rules in foreign countries, for instance: Sweden has not published a tender for Macedonian wine in several years. According to the respondent besides the indirect support for the whole industry, like promotional marketing activities, there is not direct support from the government (incentives or subsidies for export activities).

The respondent, who has previous international working and educational experience, believes that the ability for identification of foreign market opportunities as well as the possession of good selling and negotiation skills, and honesty are very important for the international growth of the firm.

The main international objectives of the winery are: sustainability of the existing export markets and continuous growth in the number of export markets, recognizable product to carry a continuous sale and find partners who are also oriented towards market expansion and investments.

Although the winery has established stable relationships with the foreign partners, it remains cautious. With the partners they share information and knowledge, and have common marketing activities. Beside business relationships, they consider personal relationships very important for the international growth of the firm and explain that people establish business relationships, as a prerequisite for businesses. They use services from consultant firms who work on foreign market research but not that often. Furthermore, the winery is a member of a local wine association (the same association that *Winery S1* belongs to). Similarly like *S1*, *M2* believes that it does not benefit from being a member of the association. The only slight advantage is that they receive some information by email. According to the respondent none of the abovementioned relationships or the membership in a wine association has ever influenced the international decisions of the winery.

## **Winery L1**

The story about *L1* begins in 1885 when the winery was built on a 1 200m<sup>2</sup> fertile land in the central part of Macedonia. By the end of the 1930' it increased its production capacity and was already well known in the Balkan countries. In 1946, when the Yugoslav federal government adopted the Law on nationalization of the private property, *L1* became a state owned company. Later the winery was moved at another location. In 1968 with the integration of several agricultural cooperatives, Agro-combinat<sup>4</sup> *L1* was formed, becoming the largest winery in South-eastern Europe. In the following period the winery is purchased by M6 partners (in 2003) and in 2008 the European Bank for Reconstruction and Development (EBRD) become owner of 25% of shares. As a result of the change in ownership and management from 2003 onwards major investments are made and *L1* changes its orientation from a producer of 90% bulk wine into a producer of 90% bottled wine. The winery employs 350 people, has a total production capacity of 550 000 hl and owns 500ha vineyard area with diverse range of grape varieties including: Smederevka, Riesling, Chardonnay, Vranec, Cabernet Sauvignon and Merlot. *Winery L1* has a 50 seat restaurant, souvenir shop, on-site wine tasting rooms, and offers wine tours to tourists. Around 60% of the total production is exported to more than fifteen foreign markets. The export intensity used to be higher prior to 2003 but with greater participation of bulk wine and therefore with lesser financial impact.

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<sup>4</sup> Agro-combinat is a former state owned enterprise

*Table 12: Winery LI, Characteristics and export exposure*

<b>Year of establishment</b>	1885
<b>Ownership</b>	Shared (local and foreign)
<b>Number of employees</b>	350
<b>Vineyard area (ha)</b>	500
<b>Processed grapes (t)</b>	30 000
<b>Production capacity (hl)</b>	550 000 (10% bulk, 90% bottled)
<b>Wine tourism</b>	Restaurant, souvenir shop; wine tasting room and offer wine tours
<b>Export intensity</b>	60%
<b>Number of export markets</b>	More than 15
<b>Export markets:</b> Serbia, Germany, Scandinavia, Switzerland, Hong Kong, USA, Australia...	

Source: Interview and web site

*Winery LI* learns about new market opportunities through its own identification process, personal and business relationships, internet portals, wine magazines and renowned wine critics. When choosing new foreign markets the winery uses several external and internal criteria. External criteria includes compliance with the national strategy of Macedonia in the field of wine (i.e. where the country is planning to invest in the field of wine), wine trade arrangements and the level of association/agreement with other wineries. On the other hand, internal criteria are: past collaboration with particular partner or the opportunity to intensify relations because of certain contacts, personal acquaintances, business relations, trade shows, and good critics from a renowned wine critics or good points on wine competition. Beside these criteria “...all other conveniences in terms of proximity, knowledge of the country, cultural familiarity, wine drinking habits of people...” (*Winery LI*, personal communication, 2011-07-06) are taken into consideration.

The first foreign market involvement is hard to be specified since the winery is 125 years old. Still it is known that by the end of 1930’ *LI* used to be well known within the Balkan countries and Germany is considered to be the first foreign market outside the region (before 1960’). *Winery LI* began its expansion in the region and to this day the region (especially Serbia) remains its second most important market after the domestic market. Exports in the region account for 53% out of the total 60% intended to be sold in foreign countries. As for the expansion of the company outside the region there is,

*“...an unusual situation... We sell in Australia and we also sell in the USA. After covering the region there is no logical order for expansion. It all happens according to the interest of the buyer and the interest expressed by the contacts we have”*  
(*Winery LI*, personal communication, 2011-07-06).

For example, wine is sold in Hong Kong, USA, Australia, Norway and Switzerland but not in Czech Republic, Poland and Russia, considered to be closer to Macedonia in mentality. It is interesting to note that after the change in ownership and management in 2003, besides shifting its focus towards bottled wine production, *LI* also increased its presence to new and distant markets such as Scandinavia and Hong Kong. Wine is exported directly to the foreign customers or via distributors.

The main motivation for the winery to continue increasing its international presence is the size of the company and the diversification of market portfolio. In addition, there are other factors that have stimulating effect, such as low consumption of wine in the domestic market and production of wine varieties which are unique to the region. Factors stemming from the internal environment of the firm include: knowledge about foreign markets and established contacts with a huge number of experts in the field, ability to bear the costs for marketing in foreign countries, product and production process brought to perfection, and applied quality systems.

On the other hand there are forces that act as hindrances to their export activities, such as finances, as well as the uncertain return on investment because Macedonia is unknown country and the return on investment cannot be predicted. The respondent explains that:

*“...wine is an image product, it is not a commodity. The perception of the producing country plays a major role. Products made in a sub-developed country automatically face a lack of interest from foreign buyers. Even in the few European countries that we are known in, we have a reputation of bulk wine production and low to mid-range wine quality...it is a matter of perception after all, not facts” (Winery L1, personal communication, 2011-07-06).*

During the interview other hindrances stemming from the external environment of the winery were discussed and include: lack of institutional support for promotion of the wine and foreign market analysis, insufficient transport companies that connect Macedonia with other countries, underdeveloped support industry (there is not a production of raw materials, like bottles and corks, in the domestic market) and problem with the name of the country and unregistered wine regions in EU. Concerning the last problem, the respondent adds:

*“For example, Macedonia still doesn't have wine regions registered with the EU. As a consequence we cannot export high quality wine. To be more precise, we do export high quality wine but we cannot obtain appropriate classification for it, with regard to its region of origin, in the EU” (Winery L1, personal communication, 2011-07-06).*

According to the respondent “A specialization in export management in the Macedonian wine industry definitely provides better knowledge, especially as it relates to the trends on the foreign markets ...” (Winery L1, personal communication, 2011-07-06). Moreover, the personal attitude of the manager and the team in terms of timely response, quality of information and similar, helps them to gain trust with foreign partners.

The international objectives of the winery are to achieve higher sales, important for the firm survival, to promote the Macedonian brand of bottled wine and prove the quality of Macedonian wine in the international markets. According to the respondent, foreign markets rarely show interest in importing wine from Macedonia before they are contacted or before an appearance on a wine fair and in their situation “In general, every success in relation to sales is a direct result of the contacts established by the export team” (Winery L1, personal communication, 2011-07-06).

Business relationships are very important for the international growth of the winery as they provide them with information and knowledge about foreign markets, new foreign contacts and have common marketing activities. The respondent describes exporting as a “...continuous process of learning ...” (Winery L1, personal communication, 2011-07-06), and

stresses that the exchange of information and knowledge with foreign partners has a major role in this process.

Regarding the strength of business relationships, they are more stable in the region while less stable in the EU and with the distant markets, like Hong Kong and “...usually there is greater frequency and stability with wines that have lower prices regardless of the quality or style, while in the higher segment the export is lower...” (Winery L1, personal communication, 2011-07-06).

The respondent shared the same opinion about the role of personal relationships and adds that they are especially important for the Macedonian companies since a lot of foreign partners want a recommendation and therefore it is very important someone to initiate the collaboration. Moreover, the winery uses consultant services mainly from abroad, not only in the field of export but production and procurement as well.

Winery L1 is a member in the same wine association that S2 belongs to. For them the credibility of the association is very important and,

*“When you are a part of an association which is comprised of exporters of mostly bottled wine that jointly cover 85% of the total wine export [of the country], [you] negotiate with the ministers and you are better placed. Besides, the advantage is that we share costs, negotiate together to go to fairs, thus facilitating our marketing activities, and we have more visibility towards external partners. They prefer to work with an institutions or an association than to work with an individual winery...”*  
(Winery L1, personal communication, 2011-07-06).

They also believe that as a part of an association the communication between the member wineries is increased, they collaborate, travel together, go to fairs, exchange information about foreign markets, regardless the fact that all of them are competitors on the domestic market. When making decisions for entering new markets, beside the individual interest, the winery is guided by the decisions taken at the level of association.

### **Winery M3**

Winery M3 was built in 2000 as part of a Macedonian company engaged in wine trade. Since the establishment of the company in 1991 until 1995/96 the main activity was wine trade and since then it turned into a wine producer using capacity from other wineries. As a result of the long collaboration and stable business relationships with the foreign partners the company decided to build its own capacity in 2000. Today the winery has 52 employees and owns 120ha vineyards planted with Vranec and Smederevka. Annually 18 000t of grape are processed of which 2 000t are from its own vineyard area and the rest is purchased. The total production capacity of the winery is 145 000hl of wine, sold in bulk quantities only on foreign markets.

*Table 13: Winery M3, Characteristics and export exposure*

<b>Year of establishment</b>	Firm 1991; Winery 2000
<b>Ownership</b>	Local, family business
<b>Number of employees</b>	52
<b>Vineyard area (ha)</b>	120
<b>Processed grapes (t)</b>	18 000
<b>Production capacity (hl)</b>	145 000 (bulk wine)
<b>Wine tourism</b>	No
<b>Export intensity</b>	100%
<b>Number of export markets</b>	3
<b>Export markets</b>	Serbia, Germany, Canada

Source: Interview

*Winery M3* learns about new foreign market opportunities only through personal relationships. When deciding which markets to enter, the main criterion is the reliability of the partners in terms of timely payment of the contractual obligation to the winery and long term collaboration.

The first export was in 1992 in Germany through a distributor. Until present time the collaborations is mainly with the same partners but with significantly larger wine quantities. The owner explains “*We haven’t had geographic development or expansion; we still hold the same markets*” (*Winery M3*, personal communication, 2011-07-11). The wine is exported in three foreign markets: Germany accounting for 90% of total exports, Serbia (5%) and Canada (5%). Markets are entered through distributors who bottle the wine and make the distribution to customers (markets). In recent years the winery invested in new equipment in order to improve the quality and be able to respond to increased consumer standards. They are focused at producing “*...cheap but good...*” wine for the consumers (*Winery M3*, personal communication, 2011-07-11).

The main motivation for this winery to engage and continue exporting is the limited domestic market, where bulk wine cannot be sold, as well as the long and stabile collaboration with their foreign partners. As a major producer of bulk wine (145 000hl), the main problem for the winery is the business distance from the EU, i.e. the preferential duty free quota for bulk wine exportation agreed between the EU and Macedonia. The respondent explained that each year, the agreed quota for bulk wine is not only fully realized but greatly exceeded. After exhaustion of the quota, tariffs are very high and as a result, a large stock of bulk wine appears in the domestic market. Moreover, at any moment a problem might occur resulting in blockage of Macedonian wine exports to the EU. That is because the three wine regions in Macedonia were abolished and now the wine should be exported as a regional wine of Macedonia, a name that is already protected (as a wine region) by Greece and as such already figures in the EU.

According to the respondent, honesty is one precondition for development of stable business relationships with foreign partners and adds:

*“...things are very simple...our partners want to see that we are honest in our dealings. In our case that has been very easy, it’s something that has been demonstrated over the years”* (*Winery M3*, personal communication, 2011-07-11).

Besides, the respondent considers that given the long international experience of the company, exports to foreign markets should be very straight forward. The primary international objective is to achieve return on investment. The winery itself is showing passive behavior when looking for foreign partners:

*“...we are far from being a good example. We are very passive...because we manage to fully sale our entire wine production even before we have started harvesting the grapes, it is not logical, nor are we motivated, to look for other partners. The ones we currently have are very solid. This is the reason why we are so passive in this regard”* (Winery M3, personal communication, 2011-07-11).

The respondent considers that personal relationships are *“...the basis and the essence of everything ...”* (Winery M3, interview, 2011-07-11) and therefore are most important for the international growth of the firm. On the other hand, through business relationships the winery shares knowledge about the production process which helps them to improve their offer according to foreign consumers needs. The winery is a member in one local wine association although they are not sure about their membership status since they have not had joint activities in a while. The respondent used to perceive the association as a *“...channel for easier communication with the State. We communicated better with the State back then, unlike now”* (Winery M3, personal communication, 2011-07-11).

When asked about the future plan of the winery and whether they are considering changing orientation towards producing bottled wine, the owner explained that although Macedonia is a wine country, according to the concentration of wineries, is not a wine power, thus the wine cannot be sold for high prices in foreign markets. Therefore, the question is *“...what kind of a bottle...”* because *“...the world is not waiting [the Macedonian wine] for 5 Euros while millions of liters may be waited for 75 cents...”* (Winery M3, personal communication, 2011-07-11). There are wineries that export wine for 5 Euros from Macedonia, but those are small quantities because it is difficult to find markets where the wine can be sold at that price. For that reason the owners are uncertain of the direction to follow.

### **Winery M1**

Similarly like *L1*, Winery *M1* has a long history. It begins in 1928 when a Serbian king decides to build a winery in Macedonia<sup>5</sup> for the needs of the royal family. Throughout the years the winery went into state ownership, than again to private, and was used for production of bulk wine. In 2002, a local family owning a company involved in agriculture business, established in 1991, purchased the winery from a private company. In that period the winery was not used for wine production and was neglected. Immediately after the purchase (in 2002), the new owners made large investments in order to renovate the winery and the overall property. Today the winery produces 63 000hl of wine, of which 60% is sold as bulk and 40% as bottled. *M1* employs 42 people and processes 12 000t grapes annually. Nearly 50% of the total production is exported in more than 10 regional, European and overseas countries.

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<sup>5</sup> At that period the territory of today's Republic of Macedonia was formally part of south Serbia, which in turn was part of the Kingdom of Yugoslavia.

*Table 14: Winery M1, Characteristics and export exposure*

<b>Year of establishment</b>	Firm 1991; Winery 1928
<b>Ownership</b>	Local, family business
<b>Number of employees</b>	42
<b>Vineyard area (ha)</b>	0
<b>Processed grapes (t)</b>	12 000
<b>Production capacity (hl)</b>	63 000 (60% bulk, 40% bottled)
<b>Wine tourism</b>	Yes
<b>Export intensity</b>	50%
<b>Number of export markets</b>	Around 10
<b>Export markets:</b>	Serbia, Croatia, Bosnia and Herzegovina, Germany, USA, Canada...

Source: Interview

*Winery M1* learns about new foreign market opportunities mainly through direct business contacts. When they choose new markets, the experience of companies with sales of wine and the spread of their distribution network are very important. When expanding to foreign markets, the differences between the countries in terms of business practice and communication,

*“...are very important. That is why we take special interest in establishing proper business communication and practices. Business experiences are of crucial importance in this case” (Winery M1, personal communication, 2011-07-23).*

According to the respondent, in the years following 2002 the winery only used to produce bulk wine, as the fastest (not the best) way for its reactivation. In that period bulk wine was exported to Germany directly to distributors. In 2005/06 the winery changed its orientation towards bottled wine and became a producer of 40% bottled and 60% bulk wine. The respondents perceive,

*“...exports of bulk wines as a routine procedure, while exports of bottled wine is a procedure that requires detailed analysis of the foreign markets where the wine is exported, in terms of quality, wine features required on those markets, as well as studying of the procedures, documents...” (Winery M1, personal communication, 2011-07-23).*

From 2006 onwards, bottled wine is sold on the domestic market and the winery increased its presence in additional foreign countries, mainly in the region. In the last couple of years exports are increased to more distant countries. Today their wine is sold in Serbia, Croatia, Bosnia and Herzegovina, Germany, Canada, USA and other countries, with the highest concentration of bulk wine being exported to Germany. The winery uses three modes to enter those markets: directly to distributors in Germany and USA, subsidiary in Bosnia and Herzegovina and Croatia, and through a sister firm in Serbia.

The main motivation for the winery to sustain export activities is the quality of the wine which gives them a possibility to reach new markets. Other influential factors steaming from the winery itself are the capacity of the winery and the available human resources while factors with external origin are the small size of the domestic market and interest from foreign

partners for Macedonian wine. According to the respondents their business is lacking support from the government and sometimes faces problems due to the high tariffs after the exhaustion of the duty free quotas for bulk wine export to the EU.

Both respondents have previous international experience and the owner education in the field. According to them, commitment in terms of detailed analysis of international markets, communication with foreign partners as well as foreign business travels are important for the export activities of the firm.

The international objective of the winery is to fully cover the regional markets, while their international approach can be described as fully establishing their position on the markets where they are already present, increasing export quantities, and then gradually spread to other markets.

The winery has developed “...long term and stable...” (Winery M1, personal communication, 2011-07-23) business relationships with the foreign partners and every decision for entering foreign markets are done, first:

*“...on bases of detailed analysis of that market and than through direct discussion with the partner... Information on foreign markets that we receive from partners and experiences we have gained during the cooperation with them always has a major role in making our decisions” (Winery M1, personal communication, 2011-07-23).*

Personal relationships are important as well, as they provide information on the production process and trends on the foreign markets. Furthermore, M1 is member of one local wine association but besides information sharing they do not perceive that being a member of an association increases their international opportunities.

The following chapter analyses the findings in relation to the literature presented in Chapter 2 (Theoretical perspective and literature review) in order to provide answers to the research questions.

## 5 Cross case analysis

In this chapter the findings from the interviews (Chapter 4, Case findings) will be analyzed in relation to the reviewed literature (Chapter 2, Theoretical perspective and literature review). For that purpose the chapter is divided in two sections connected to the two themes (Internationalization process, and Networks and internationalization) as follows:

- *Section 5.1* is related to the first theme (Internationalization process) and is divided in three subsections: International behaviour, Motivation and hindering factors, and Key factors. Each subsection aims to provide answer to the three research questions RQ1, RQ2 and RQ3 respectively, formulated in Chapter 2. A table with the findings from the interviews related to this section is presented on page 53/54,
- *Section 5.2* is related to the second theme (Networks and internationalization) aiming to provide answer to the fourth research question (RQ4). A table with the findings from the interviews related to this section is presented on page 58.

### 5.1 Internationalization process

#### 5.1.1 International behaviour

RQ 1: *How do Macedonian wine producers internationalize?*

The wineries in the sample use different methods to learn about new foreign market opportunities. In all cases network relationships are seen as a valuable source for acquiring knowledge about foreign markets. Firms learn about the opportunities arising in the markets through the developed business relationships with their foreign partners (*Winery S1, S2, M1, M2, L1*), as well as through the personal relationships of the decision makers (*S2, M2, M3, L1*). When respondents discussed the business relationships, they referred primarily to relationships developed with the foreign partners such as customers and distributors while suppliers and others were rarely mentioned. Concerning the personal relationships, beside the relationships that the respondents have developed with others in the wine business, information and experience sharing through family relationships is especially evident in the case of *Winery S2*.

In addition to the information acquired through network relationships, decision makers often conduct their own identification process in order to acquire information about the possibilities in the foreign markets. That is mainly done through the internet (*S1, M2, L1*) and reading materials like wine magazines (*L1*).

Furthermore, some of the wineries (*S1, S2*) perceive wine fairs as a valuable place where they can obtain information about the occurrences in the foreign markets. By participating in a wine fair, they exchange information and experiences, make contacts and expand their networks.

When choosing new foreign markets, the wineries are generally guided by four criteria and those are: the psychic distance, the size of the foreign markets, the wine trade arrangements and the reliability of the foreign partners.

The influence of the psychic distance is especially evident in the segment of bottled wine. For instance, when *Winery L1* chooses new foreign markets, besides the other criteria “...all other

*conveniences in terms of proximity, knowledge of the country, cultural familiarity, wine drinking habits of people...*” (Winery L1, personal communication, 2011-07-06) are taken into consideration. In practice, the exports in the segment of bottled wine are concentrated in the regional markets. Exception is Winery S1 which is present in only one foreign market, the Netherlands, and is at the early stage of internationalization. The respondent S2 would say “*We are concentrated most on the European market [including the region], as it is closest and realistically optimal for work*” (Winery S2, personal communication, 2011-06-29). The regional markets like Serbia, Croatia, Bosnia and Herzegovina, Montenegro, Slovenia and Kosovo are closest and have always been traditional markets for the Macedonian wine. In addition to the proximity, with those countries, Macedonia share similar culture and language which facilitates the business communication and the transfer of activities among them. Indeed, until the breakup of Yugoslavia (comprised of the aforementioned countries including Macedonia) the entire federation was a domestic market for the Macedonian wine. After the dissolution of the federation, which commenced in 1991, all of these countries automatically became international markets for the Macedonian wine. The linkages originating from the period of the joint country are still strongly evident.

On the other hand, the European markets, Germany in particular, absorb the highest quantity of bulk wine exported from Macedonia. These markets are relatively close as well, thus suitable for establishment of business activities. The German market is attractive as Germany is not a large wine producer but is one of the largest wine consuming countries in the world (see [www.wineinstitute.org](http://www.wineinstitute.org)). It is evident that the wineries focused at production of bulk wine (Winery M1, M2, M3) have established a stable and long term relationships with this market.

The expansion of the wineries outside the region does not follow a logical order. The respondent from Winery L1 explained the expansion of the company outside the region as:

*“...an unusual situation...We sell in Australia and we also sell in the USA. After covering the region there is no logical order for expansion. It all happens according to the interest of the buyer and the interest expressed by the contacts we have”* (Winery L1, personal communication, 2011-07-06).

It seems that the same applies to the other wineries in the sample since the most common markets outside the region, besides Germany, are: USA, Canada, China, Hong Kong, Scandinavia and Russia. Those markets do not show similar characteristics between themselves except for the fact that all of them are large wine consuming countries (for more information see [www.wineinstitute.org](http://www.wineinstitute.org)), indicating that more opportunities for the Macedonian wine producers may arise on those markets. Indeed, the size of the foreign markets is one of the criteria of Winery M2 and S1 when choosing new markets.

The findings also showed that the wineries tend to expand to countries with which Macedonia has arranged free trade arrangements, although this criteria was addressed only by Winery L1. Those countries are the countries in the region and the member countries of the EU. The findings demonstrate that those markets absorb the highest quantity of wine among the wineries in the sample.

In addition, some of the wineries choose to work with reliable foreign partners that ensure long term collaboration (M3), have experience and extensive distribution networks (M1), are committed in the promotion of the wine in the particular country (S2) or a partner with whom the winery had past collaboration with (L1).

On bases on the above, the wineries oriented towards production of bottled wine initially established operations in the domestic market (*S1*) or in the domestic and the foreign markets simultaneously (*S2*, *L1*) while those with stronger focus towards production of bulk wine (*M1*, *M2*, *M3*) started with export expansion since inception. The speed of internationalization is different among the wineries, varying from gradual (*S1*), more rapid (*S2*, *M2*), rapid but followed by stagnation (*M3*) and more rapid after the change in ownership and management (*M1*, *L1*).

The wineries commonly use several methods to enter foreign markets. They are exporting directly to the customer, through a sister firm established in the foreign market or a distributor. *Winery S2* is the only one in the sample that exports indirectly through agents to some foreign markets. *Winery M1* established a subsidiary in one foreign market.

As discussed earlier, according to the literature firms can be classified, on bases of their international behaviour, as ‘traditional’, ‘born global’ and ‘born again global’ (see Chapter 2, Theoretical perspective and literature review). However, the findings of the study showed that this classification cannot fully describe the international behaviour of the Macedonian wine producers. Almost all wineries engage in exporting right after the establishment, even to more distant markets, although they show similar characteristics as ‘traditional firms’. The main reason for such behaviour is the limited domestic market, which is in detail elaborated in the following subsection. Bearing this in mind, the wineries in the sample are classified in a category they best fit in. Accordingly *Winery S1*, *S2* and *M3* are ‘traditional’ firms, *Winery M2* is ‘born global’ firm and *Winery M1* and *L1* are ‘born again global’ firms.

*Winery S1* is characterized as ‘traditional’ because it had its first international activity five years after the establishment of the winery and still has strong domestic focus. This winery is present at only one foreign market and is at early stage of internationalization. *Winery S2* is ‘traditional’ as to the expansion to psychically close markets although this winery had its first export activity one year after inception and is present at more than twenty five foreign markets at present time. *Winery M3* is as well ‘traditional’ due to the small number of markets (only three) and no geographical expansion since the early years after the establishment even though this winery is 100% export oriented.

*Winery M2* is the only one in the sample that can be classified as a ‘born global’ firm. This winery had strong international intention since the establishment and began to expand to more distant markets right after inception unlike the other wineries in the sample.

*Winery M1* and *L1* are ‘born again global’ firms as they change their orientation from producers of bulk wine to producers of bottled wine and expand to new markets after the change in ownership and management. However these wineries still show strong focus toward the regional markets.

In conclusion, the wine producers in the sample typically expand to foreign markets soon or right after the establishment of the wineries and are mainly concentrated in the regional and the European markets, Germany in particular. The reasons for such behaviour are discussed in the following subsection.

### 5.1.2 Motivating and hindering factors

RQ 2: *What are the main motivating and hindering factors the Macedonian wine producers are faced with and how do they influence the process?*

The finding from the interviews showed that the main external motivating factors that influence the internationalization of the wineries in the sample are the limited domestic market (*S1, S2, M1, M2, M3, L1*) as well as the interest from the foreign buyers for Macedonian wine (*S2, M1*).

The Macedonian wine market is unfavorable for the domestic wine producers due to its small size and the low wine consumption, in addition to the significant traditional wine production by individuals (households) which accounts for two thirds of the overall wine consumption in the country. Moreover, there is no domestic market for bulk wine, which is produced in large quantities. For those reasons the Macedonian wine producers have to look for an alternative to sell their wine and those are the foreign markets. For illustration, only *Winery M2*, with its production capacity of 100 000hl can meet the domestic demand for wine. As a result the wine producers focused at production of bulk wine engage in exporting right after the establishment of the wineries. On the other hand, the producers of bottled wine, although facing limitations from the domestic market, will commence exporting sooner or later after the establishment of the wineries depending on other factors too, such as their capabilities or the foreign demand for Macedonian wine. The limited domestic market explains why the wineries producing bulk wine engage in exporting right after the establishment and is a contributing factor to why some of the wineries oriented towards production of bottled wine began exporting soon or right after inception.

Besides the limited domestic market, other external factors that stimulate export are the opportunities that arise from the foreign markets i.e. unsolicited orders from abroad. For clarification, based on the information from the interviews, foreign markets rarely show interest for importing wine, especially bottled, from Macedonia. However, when such interest does exist, some of the wineries will act in response to it. For instance *Winery S1* has responded to such possibility that resulted in export to the Netherlands. Similarly, when there is an interest from the foreign countries, *Winery S2* uses “...*both push and pull* [strategies], *there can be no limitations when you try to sell ...*” (*Winery S2*, personal communication, 2011-06-29). In addition, the export expansion after the region, for *Winery L1*, happens as a result of the interest of the foreign buyers or contacts of the company. The reaction of the wineries to the opportunities from the foreign markets, in form of unsolicited orders, may explain the unrelated expansion to the more distant foreign markets.

Those two external forces that motivate the wineries to internationalize, namely limited domestic market and unsolicited orders from abroad, indicate reactive behavior of the wineries in looking for market opportunities.

Besides the external motivating factors, the findings indicate that there are some factors of internal nature that influence export activities. Those are: representative product (*S2, M1, L1*), the size of the winery (*M1, L1*), possession of financial advantage for marketing the product in foreign countries (*L1*), potential for growth (*M2*) and information on foreign markets (*S2, L1*). All of these motivating factors are connected with the wineries unique competences and therefore initiate proactive behavior in looking for foreign market opportunities.

On the other hand, the Macedonian wine producers are faced with many hindrances originating mainly from the domestic environment that reflect on their export activities in the foreign environment i.e. external/domestic hindrances. Some examples are: lack of country image (*LI*), underdeveloped support industry (*LI*) unregistered wine regions in the EU (*LI*) and lack of governmental support (*S1, S2, M1, M2, M3, LI*).

Despite the fact the Macedonia has a long tradition of wine production and a high concentration of wineries the country lacks the image of a wine country. The production and exports of wine from Macedonia are still dominated by bulk wine beside the reorientation of some of the wineries towards higher quality bottled wine and thus investing heavily in sophisticated equipment and technology. Moreover, Macedonia is a small country and the quantity of produced wine presents only a small portion of the total wine production worldwide, thus the wineries from Macedonia lack international visibility.

The high concentration of export of bottled wine to the countries in the region confirms that Macedonia already has an image of producer of high quality wine in the region, however outside the region this is not the case. According to one of the respondents:

*“...wine is an image product, it is not a commodity. The perception of the producing country plays a major role. Products made in a sub-developed country automatically face a lack of interest from foreign buyers. Even in the few European countries that we are known in, we have a reputation of bulk wine production and low to mid-range wine quality...it is a matter of perception after all, not facts” (Winery L1, personal communication, 2011-07-06).*

Based on the above, the country of origin has a major role in the perception of the wine quality and thus influences its placing possibilities on the international market. Indeed, the majority of consumers will most likely choose any “French” or “Chilean” wine rather than wine from a particular winery, especially wineries from outside the well known wine producing countries. The lack of the image of Macedonia as a wine country is one of the main reasons why the Macedonian producers face difficulties to find new foreign markets, and develop more stable relationships with the European and overseas markets.

Another problem arising from the domestic environment, that affects the producers of bottled wine, is that Macedonia lacks industries to support the wine production. Materials such as bottles and corks are imported from abroad resulting in higher production costs for wine and thus increasing the price of the final product.

Macedonia still does not have a registered wine region (regional wine), districts (quality wine), localities and specific wine unites (premium wine) in the EU, on bases on which the geographical origin of the wine from Macedonia would be protected. As a result the exporters of wine with higher quality cannot obtain a proper classification for their wines i.e. are treated as wines with lower quality. Moreover, according to the new Wine Law (Official Gazette 50/2010) the entire territory of Macedonia is now a single wine region while at the same time a wine region with the identical name is already protected by Greece<sup>6</sup> and as such figures in the EU, thus threatening the whole wine industry in Macedonia from a possible ban of wine exports in the EU.

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<sup>6</sup> A northern province in Greece is also called Macedonia

The respondents were asked to give their opinion about the support they get from the State for the export activities of the wineries. All of them agreed that the State does not support their export activities, except for the respondent from *Winery M2* who stressed that the government supports the whole industry indirectly through promotional activities while there is no direct support. According to the respondent *L1* the industry lacks institutional support for promotion of the wine and foreign market analysis.

The main hindrance for the wineries, with internal nature, is finance. Almost all of the wineries in the sample stressed that the finances needed to invest in foreign markets is one of the main constrain for the export activities of the wineries.

The respondents also stressed that they are faced with procedure requirements (*SI*) as well as import restrictions imposed by foreign rules (*M2*). In addition two of the wineries (*M1*, *M3*) focused towards production of bulk wine, are facing high tariffs problems after the exhaustion of the quota for exports of bulk wine in the EU. As a result a large stock of bulk wine appears in the domestic market.

In conclusion, the wineries being interviewed are mainly motivated to internationalize by the adverse home market. As a result the producers of bulk wine will expand to foreign markets right after inception while the expansion of the producers of bottled wine will depend on other factors too. However, some of the wineries, being in an advanced stage of export development, are motivated to continue exporting as a result of their capabilities such as knowledge about foreign markets or representative product, in addition to, the motivation steaming from the small domestic market. The main factors that hinder the export activities of the wineries originate from the domestic environment, such as lack of country image and governmental support, underdeveloped support industry and unregistered geographical areas for the protection of geographical origin of wine from Macedonia. Finance is the main hindrance having an internal character. Other hindrances such as high tariffs after the exhaustion of the quota for bulk wine in the EU, procedure requirements and restrictions imposed by foreign rules were highlighted as well.

### 5.1.3 Key factors

RQ 3: *What are the key factors influencing the internationalization process of the Macedonian wine producers and how do they influence the process?*

It seems that the international involvement of the decision makers in terms of previous working or educational experience, foreign travels, as well as the knowledge of foreign languages is important for the international activities of the Macedonian wine producers since most of the wineries in the sample are successful exporters. However, there is evidence that the length of time the decision maker spends abroad may be important precondition for the export performance. Namely, the decision maker of *Winery M2*, which is the only winery classified as 'born global' due to the faster internationalization to more distant countries, has spent a longer period of studying and working in a several foreign countries. Throughout the time period spent in foreign environment, regardless of the purpose, decision makers are more likely to gain knowledge of the foreign cultures and business practices, as well as information and contacts, and thus increasing their ability to identify foreign market opportunities. Indeed, the ability of the decision maker to identify new market opportunities is one of the prerequisites for successful export activities of the firm according to the respondent representing *Winery M2*.

In addition, the role of the decision maker is not only to identify new market opportunities, but as well to decide upon which opportunity will be pursued, regardless if it is identified by the firm itself or it stems from the external environment. In view of that, the decision of *Winery S1* to export was initiated by an opportunity coming from the external environment. Similarly, *Winery S2*, in addition to their own process of possibilities identification, also actively reacts to the opportunities arising from the foreign markets.

According to respondents from *Winery S2* and *L1*, the personal knowledge of the decision maker about foreign markets is very important for the export activities of the wineries they represent. It seems that such knowledge about the foreign markets requirements and trends enables the wineries to access more distant and diverse range of markets. For instance, unlike the other wineries in the sample, those two wineries have export activities to Scandinavia and Australia and *Winery S2* even to Africa. Accordingly, the respondents explained:

*“...the sole fact that we export to the USA, China, Nigeria, Canada and Australia witnesses that we have solid capacities to so because different specific requirement and procedures exist on the different markets...we need to follow various issues closely to understand the flow of the process...”* (*Winery S2*, personal communication, 2011-06-29).

*“A specialization in export management in the Macedonian wine industry definitely provides better knowledge, especially as it relates to the trends on the foreign markets ...”* (*Winery L1*, personal communication, 2011-07-06).

On bases on the above, the possession of knowledge of the foreign markets, despite being related to the personal commitment of the decision maker, it can also be related to the long export experience of the decision maker within the firm, the export experience of the firm itself (*Winery S2*), as well as the structure of the firm (*Winery L1*). *Winery L1* is the only one in the sample having an export department thus higher specialization.

The findings demonstrated that the identification of the foreign markets for bottled wine requires higher commitment from the decision maker than the identification of the foreign markets for bulk wine. One of the respondents described:

*“...export of bulk wines as a routine procedure, while export of bottled wine as a procedure that requires detailed analysis of the foreign markets where the wine is exported, in terms of quality, wine features required on those markets, as well as studying of the procedures, documents...”* (*Winery M1*, personal communication, 2011-07-23).

The higher commitment needed for export of bottled wine, together with the conclusion that the identification of new foreign markets is hard (*Winery S1*) due to the low interest from foreign buyers for Macedonian wine (*Winery L1*), are probably the main reasons for the more aggressive behaviour of the high quality bottled wine exporting wineries when looking for new market opportunities. On the other hand, the export of bulk wine is more easily implemented due to the more stable demand from the foreign markets, and in the more advanced stage of export development, it becomes a straight forward procedure (*Winery M3*), thus causing a more passive behaviour of the wineries in looking for new market opportunities. Therefore the type of the product, namely bulk wine with lower quality or bottled wine with higher quality, can explain the difference in behaviour among the wineries

(as well as within a winery) when looking for new opportunities since it requires different strategies. It should be noted that aggressive behaviour in looking for market opportunities does not always reflect in an aggressive expansion to foreign markets as the latter will, to a large extent, depend on other factors too.

The international approach is different among the wineries. Some of the wineries consider to have a planned approach to internationalization, while they also can act in a less structured approach. However, even when the wineries adopt a planned approach to internationalization, identified on bases on their criteria when choosing foreign markets and the aggressiveness when looking for new market opportunities, they show flexibility in response to the opportunities arising from the foreign markets, as was identified earlier, thus explaining the unrelated expansion to the more distant markets.

The international objectives of the wineries are: return on investment (*S1, M3*), sustainability of their placement on the existing foreign markets (*M2*), increase their share in the foreign markets where they are already present (*M1*) and expand to new foreign markets (*S2, M2*) as well as increase the sales volume (*L1*). Generally, all of those objectives are associated with the firm's survival as a result of the risk stemming from the external environment of the wineries. Namely, the outcome of the lack of customers and markets, that the wineries are faced with, is uncertain return on investment and income which motivate the wineries to grow and increase their presence to new foreign markets in order to survive.

In addition, the international objective of the largest winery (*L1*) in the sample is to promote the Macedonian brand of bottled wine and to prove the quality of the wine on the international markets. It seems that this winery is already taking, or may take the position of a leader among the wineries and may provide a strong direction for the international activities of all wineries, especially the producers of bottled wine.

All of the wineries are part of a smaller or wider network of relationships with the foreign markets. The most common channel to enter foreign markets is through distributor in the foreign market, although some of the wineries sell their wine directly to the customers or increase their international commitment by establishing a sister firm and a subsidiary in the foreign country. One winery (*S2*) uses agents to enter some foreign markets. The developed business relationships with the distributors and the costumers in the foreign markets, as well as the personal relationships of the decision makers and other employees in the wineries, are perceived as a valuable source of information and knowledge for the opportunities in the foreign markets (more details in section 5.2). The wineries with longer international experience have wider networks and developed stable relationships with their key markets.

Wine is a sensitive product to the cultural environment in terms of taste, habits and cultural differences. According to the respondents there are large differences among the countries in this regard and some of them (*S2, M2*), especially *Winery M2* are showing great flexibility in adjusting their offer to the consumer preferences.

The findings show that there is a relationship between the international experiences of the winery, the size of the winery and the international approach, with the export activities and how the wineries perceive the motivating and hindering factors. Relationship between the export intensity and the perceptions of the wineries has not been identified.

It is believed that the larger firms can benefit from their size while the smaller firms are affected by resource constraints (such as human resources and finance). Within the sample three wineries (*M1*, *M2*, *L1*) are motivated to internationalize because of their size. The wineries with larger production capacity can offer stable supply to the foreign markets and thus develop more stable relationships with the partners. There is also evidence that the largest winery (*L1*) is the only one in the sample that can bear the costs for marketing the product in the foreign markets, while all the other wineries are facing financial constraints in this regard. Moreover, this winery has an entire team responsible for export activities, and thus better knowledge about the foreign markets.

However, the knowledge about foreign markets, besides the structure of the firm, can be related to the international experience of the firm i.e. the number of years since the initial export. Namely, *Winery S2*, classified as a winery with small production capacity, is also motivated to internationalize due to the possession of knowledge about the foreign markets as well as its long export experience. The wineries with longer export experience, although aware about the complexity and requirements arising from the establishment of activities in the foreign markets, are able to respond more easily to such requirements. Moreover, there is evidence that those wineries have developed wider and more stable network relationships with the key markets where they operate.

There is also evidence that the wineries actively and aggressively seeking foreign market opportunities will be more motivated to engage in exporting. It is also evident (in the segment of bottled wine) that in the more advanced stages of export development, besides the reactive motivation stemming from the adverse domestic market, the wineries are motivated to continue exporting by proactive motivating factors, as well. For instance, the motivation for *Winery S1* (early stage of export development) to commence export activities is the limited domestic market while for *Winery S2* and *L1* (advanced stage of export development), the representative product and knowledge about foreign markets. However, as was earlier identified, the proactive motivation, in the case of the Macedonian wine producers, does not reflect always in a proactive behavior. In other words, the wineries although having capacities, will expand gradually from psychically closer markets to more distant markets showing unrelated expansion. The expansion to the regional, psychically closer, markets is faster as Macedonia has a reputation of producer of bottled wine with high quality dating from the period of Yugoslavia.

Similarly in the segment of bulk wine, the exports are focused in the EU, with the highest concentration in Germany, while showing unrelated expansion to the other foreign markets. The expansion to Germany is rapid as a result of the foreign demand and the reputation of bulk producer that Macedonia has on that market.

Table 15: Case findings: International behavior and influential factors-Summary of answers provided by respondents, arranged per RQs (part 1)

Behaviour, RQ1	S1	S2	M2	L1	M3	M1
<b>Knowledge about new market opportunities</b>	Through business contacts and wine fairs	Own identification process, personal and business relationships, internet, wine fairs and presentations	Own identification process, personal and business relationships	Own identification process, personal and business relationships, internet portals, wine critics, wine magazines	Personal relationships	Mainly through direct business contacts
<b>Market selection criteria</b>	Larger markets (where it would be easier to sell the wine)	Open for all interested parties; some markets on bases on appropriateness of foreign partners for collaboration	Sustainability of the market, growth of wine consumption and the economic situation in a given country, what can be presented in a given market, as a winery and country	Compliance with the national strategy, trade arrangements, level of association: past collaboration, opportunity to intensify collaboration; proximity...	Reliable partners i.e. partners that can ensure timely payment of the contractual obligation to the firm and long term collaboration	Experience of companies with sales of wine and spread of their distribution network
<b>Expansion patterns</b>	Strong domestic focus, domestic expansion first (first export 5 years after inception), no focus on psychic markets, limited evidence of networks	Simultaneous domestic and export expansion; main focus on psychic markets; strong evidence of networks	Export after inception; exporting precedes domestic activity; less focused on psychic markets; strong evidence of networks	Simultaneous domestic and export expansion; main focus on psychic markets; strong evidence of networks	100% export oriented since inception, no focus on psychic markets, evidence of stable business relationships with partners in 3 countries	Export expansion first, then simultaneous export and domestic expansion; main focus on psychic markets; strong evidence of networks
<b>Pace</b>	Gradual/Limited internationalization, currently engaged in one foreign market	Relatively rapid; several markets at once; in total ↑25 markets; evidence of adaptation of existing offer	Rapid; many markets at once; in total ↑16 markets; adaptation of existing offer	Evidence of faster internationalization after the change in ownership and increased presence to distant markets; in total ↑15 markets	Rapid but small number of markets (only 3); adaptation of existing offer	Rapid after the change in ownership; several markets at once; in total ↑10 markets
<b>Distribution/entry modes</b>	Distributor	Direct with importer and distributor. In several countries use agent	Sister firm in a foreign country; distributor and directly to the customer (market)	Directly to foreign customer or distributor	Distributor	Distributor, sister firm, subsidiary

Factors, RQ2	S1	S2	M2	L1	M3	M1
<b>Motivation</b>	Low wine consumption on domestic market	Limited domestic market, long working and export experience (13 years) and representative product, interest from foreign markets	Limited domestic market and continuous sale to markets that can accept the quantity the winery produces	Size and diversification of market portfolio/ can bear costs for marketing, product and process, limited domestic market, production of unique wine varieties...	Bulk wine is hard to sell on the domestic market, reliable and long term foreign partners	Quality of wine, production capacity, small size of domestic market and interest from foreign partners for Macedonian wine
<b>Hindrances</b>	Finance, high price of Macedonian wine, lack of joint marketing and procedure requirement for entering foreign markets; lack of governmental support	Finance for marketing the wine; lack of governmental support	Transportation costs, visa requirements for entering some countries; finance and restrictions imposed by foreign rules; evidence of limited direct governmental support	Finance, uncertain return on investment, lack of country image and institutional support, name issue and unregistered wine regions in EU underdeveloped support industry...	High tariffs after the exhaustion of the quota for bulk wine in EU, unregistered wine regions in the EU as potential problem	High tariffs after the exhaustion of the quota for bulk wine in EU, lack of governmental support
Key factors, RQ3	S1	S2	M2	L1	M3	M1
<b>Decision maker</b> (Objective characteristics/OC; Subjective characteristics/SC)	<u>OC</u> : education in the field and past international experience;	<u>OC</u> : experience acquired in the firm; <u>SC</u> : knowledge about foreign markets	<u>OC</u> : past international experience; <u>SC</u> : ability to identify new market opportunities , selling and negotiation skills, honesty	<u>OC</u> : past international experience; <u>SC</u> : commitment, knowledge about foreign markets	<u>OC</u> : experience acquired in the firm; <u>SC</u> : honesty	<u>OC</u> : Both respondents have past international experience and the owner has education in the field; <u>SC</u> : commitment
<b>Firm specific characteristics</b> (International objectives/IO; Strategic approach/SA; Network relationships/NR)	<u>IO</u> : return on investment, new foreign markets and modernization; <u>SA</u> : evidence of opportunistic behavior; <u>NR</u> : limited evidence of networks; weak relationships	<u>IO</u> : increase its presence to new foreign markets; <u>SA</u> : evidence of planned and opportunistic approach; <u>NR</u> : strong evidence of networks; less stable relationships in distant markets	<u>IO</u> : sustainability of existing markets, continued growth to new export markets; recognizable product, compatible partners; <u>SA</u> : planned approach; <u>NR</u> : evidence of network exploiting; stable relationships	<u>IO</u> : sales, promotion of Macedonian brand of bottled wine and to prove the quality of Macedonian wine; <u>SA</u> : planned approach; <u>NR</u> : strong evidence of networks; less stable relationships in distant markets	<u>IO</u> : return on investment; <u>SA</u> : opportunistic; <u>NR</u> : evidence of network exploiting; stable relationships	<u>IO</u> : fully develop to regional markets; <u>SA</u> : evidence of planned approach ; <u>NR</u> : strong evidence of networks; stable relationships

## 5.2 Networks and internationalization

RQ 4: *How do networks influence the internationalization process of the Macedonian wine producers?*

Every winery in the sample is a part of a smaller or larger network of business relationships with distributors, suppliers or customers as well as personal relationships with family, friends or colleagues. Moreover, all of them are members in local wine associations. Some of the wineries have developed relationships with agents and consultant firms.

In general, all of the wineries share the same opinion that the business relationships provide them with information about new foreign market opportunities (*Winery S2, M1, M2, L1*), knowledge (*M2, M3, L1*) and foreign contacts (*S2, L1*). Indeed, according to one of the respondents, the export is a “...continuous process of learning...” (*Winery L1*, personal communication, 2011-07-06), and the exchange of information and knowledge with foreign partners has a major role in this process. In addition some of the wineries (*S2, M2, L1*) have common marketing activities with the foreign partners. According to *Winery S1* and *M3*, the information and knowledge they gain from the foreign partners is in relation only to the wine production process. This may be due to the smaller number of network relationships that they have developed compared to the other wineries in the sample. However, the information and knowledge they acquire from the foreign partners regarding the production process gives them directions about the foreign consumer preferences and influences the development of their product, which was especially evident in the case of *Winery M3*.

The findings showed that the wineries have developed stable business relationships with their key markets. For the producers of bottled wine those are the regional markets and for the producers of bulk wine the German market. According to one respondent, representing a winery oriented towards production of bottled wine “...usually there is greater frequency and stability with wines that have lower prices regardless of the quality or style, while in the higher segment the export is lower...” (*Winery L1*, personal communication, 2011-07-06). This situation can be related to the low interest from the foreign countries for the Macedonian wine as a result of the image of Macedonia as a low to mid-range wine producer, the inability of the wineries to offer stable supply of wine in terms of quantity and the inability to offer competitive prices in the foreign markets. According to respondent *S1*, the price of the Macedonian bottled wine in the foreign markets is higher when compared to other wines within same category.

The personal relationships of the decision maker are identified as crucial for the international growth of the wineries (*S1, S2, M2, M3, L1*). Some of the respondents explained the role of the personal relationships as: “...the basis and the essence of everything ...” (*Winery M3*, interview, 2011-07-11) or “In general everything is based on that, people make businesses, business does not make people, thus personal relationships lead to collaboration” (*Winery S2*, personal communication, 2011-06-29). In view of that, personal relationships initiate collaboration (*S2, M2, L1, M3*), provide foreign contacts (*L1*) as well as knowledge and information about the opportunities in the foreign markets (*M1, L1*). According to the respondent representing *Winery L1*, the personal relationships as well as the business relationships are very important, especially for the wine producers from Macedonia since a

lot of foreign partners want a recommendation and therefore it is very important someone to initiate the collaboration.

It seems that services from consultant firms are not a common choice among the Macedonian wine producers. *Winery M2* uses consultant services for a market research but not often. Unlike other wineries in the sample, *Winery L1*, which is financially stronger within the sample, uses consultant services in the field of export, production and procurement, mainly from abroad.

The wineries have different opinion regarding the benefits of being a member in a local wine association. However there are similar perceptions among the wineries that belong to the same association. According to the respondents representing *Winery S1* and *M2*, which belong to a same association, being a member of this association does not increase their international opportunities. The only obvious advantage is the exchange of some information through email (*Winery M2*). The respondents from *Winery M1* share the same opinion although they belong to another wine association. According to the respondent from *Winery M3*, who is not sure about the membership status of the winery in the association, the association is perceived as a channel for easier communication with the State.

On the other hand, the respondents from *Winery S2* and *L1*, both members of the same association, have opposite opinions about the advantage of being a member of an association. According to them, through the association they have higher bargaining power in relation to both the State and foreign partners, and more visibility. In addition, they believe that the communication and the collaboration among the members of the association, especially concerning their export activities, have increased a lot. This and more can be seen from their statements:

*“...we are always stronger when we can negotiate together, our bargain power is greater when we are bigger than when we are alone and smaller” (Winery S2, personal communication, 2011-06-29).*

*“When you are a part of an association which is comprised of exporters of mostly bottled wine that jointly cover 85% of the total wine export [of the country], [you] negotiate with the ministers and you are better placed. Besides, the advantage is that we share costs, negotiate together to go to fairs, thus facilitating our marketing activities, and we have more visibility towards external partners. They prefer to work with an institutions or an association than to work with an individual winery...” (Winery L1, personal communication, 2011-07-06).*

*“The level of collaboration is high and we cooperate...it is our common interest to export wine...our [domestic] market is a different issue, here we are all competitors and behave differently” (Winery S2, personal communication, 2011-06-29).*

The contrasting opinions between the wineries regarding the benefits of being a member of a wine association may be a result of the differences among the associations and their members. Namely, the suggestion of the *Winery S1* that another association, comprising wineries with similar characteristics and international goals, should be formed indicates that the association they belong to has members with different size and interest and lacks strong direction. On the other hand, based on the opinion of the *Winery S2* and *L1*, the association that they are members of, is comprised of wineries that export mainly bottled wine, and thus have same

interest, while the association itself has a stronger direction. It is also evident that, when the associations are formed without having a strong base and in the same time comprising members with different interest, those associations does not facilitate the collaboration among the wineries regarding issues in the domestic market and even less in relation to their export activities.

It is interesting to note that when asked about the influence of the business and personal relationships on the international decisions of the wineries they represent, some of the respondents gave answers that do not really confirm their previous statements. On one hand, according to *Winery M1* and *L1*, their international decisions are influenced by the business and personal relationships while *Winery S1* and *M3* do not provide a clear answer. On the other hand, the *Winery S2* whose export activity was initiated through a development of new network relationship (initiated by the distributor from The Netherlands) and *Winery M2* whose initial export activities take place as a result of the previous working and developed business relationship of the firm established years before the establishment of the winery itself, believe that network relationships do not influence their international decisions. Furthermore, those two respondents and the respondents from *Winery S2* and *M3* believe that their personal relationships are very important for the international growth of the wineries and in some cases lead to collaboration. The lack of recognition of the role of network relationships on the internationalization process may be explained with the short network horizon or narrow and weak network relationships among some of the wineries in the sample.

Regarding the role of wine associations on the decision making, the respondent representing *Winery L1* considered that the international decisions of the winery are guided by the decisions taken at the level of the association they belong to, in addition to the individual interests of the winery to establish export activities to a particular market. The respondent from *Winery S2* did not provide a clear answer to the question, while the others considered that their membership in a wine association did not influence their decision to internationalize.

In conclusion, personal and business networks provide international opportunities for the wineries through exchange of information, knowledge, sometimes lead to new contacts with potential foreign partners and facilitate future collaboration. Personal relationships that the decision makers of employees develop are perceived as most important for the initial as well as ongoing internationalization of the wineries. The wineries with wider and diverse network relationships are more likely to gain information, knowledge and contacts with foreign markets besides their proactive identification process. On the other hand, whether the formal structured networks (local wine associations) will influence or not the internationalization process depends on the ability of the network to facilitate collaboration among the members and provide a direction for the whole group, on the characteristics of the member wineries and their interests, and the willingness of the member wineries to collaborate on various issues. The findings showed that only one association among those in the sample provides international opportunities for its member wineries, in terms of information and knowledge sharing and facilitates communication with the State and foreign partners. However, there is no evidence that the members use the association to jointly enter some markets.

Table 16: Case findings: Networks-Summary of answers provided by the respondents, arranged per RQs (part 2)

Networks, RQ4	S1	S2	M2	L1	M3	M1
<b>The role of business relationships</b>	Exchange of information about wine production	Exchange of information in general, contacts and common marketing activities	Exchange of information in general, knowledge and common marketing activities	Exchange of information in general, knowledge, new foreign contacts and marketing activities	Exchange of information and knowledge about wine production	Exchange of information in general and experience
<b>Strength of business relationships</b>	Unstable (weak)	Stable in the region and Europe and less stable in distant markets	Stabile but the winery remains cautious	Stable in the region and less stable in Europe and distant markets	Long term and stable	Long term and stable
<b>The role of personal relationships</b>	Very important for the international growth of the firm	Very important, lead to collaboration	Very important, people make relationships not the firms	Exchange of information and knowledge, new foreign contacts	Very important, the base	Exchange of information on production process and trends in markets
<b>Relationship/intermediary</b>	None	None	Consultant firms but not that often	Consultant services mainly from abroad	None	None
<b>Membership in wine association/s</b>	One local wine association (same as M2)	One local wine association (same as L1)	One local wine association (same as S1)	One local wine association (same as S2)	One local wine association	One local wine association
<b>The role of association</b>	None	Higher bargaining power; improved communication and collaboration with competitors from domestic market in relation to export activities	No obvious advantage except for information exchange through email	Higher bargaining power and visibility; improved communication and collaboration with competitors from domestic market in relation to export activities	Better communication with the government	No obvious advantage except for information exchange
<b>Network influence on decisions</b>	None	Not clear	None	Yes	Perceived as Yes, except for the formal wine association	Yes, expect for the formal wine association

## 6 Discussion

In this chapter the findings from the interviews will be discussed in relation to the reviewed literature and findings from previous studies, in order to provide better explanation of the internationalization process of the Macedonian wine producers. The chapter is divided in two sections (Internationalization process, and Networks and internationalization) and follows the same order as in the previous chapter (Chapter 5, Cross Case Analysis).

### 6.1 Internationalization process

The empirical findings from the Macedonian wine subsector confirmed previous findings that one single theory cannot explain the internationalization of firms and that the process is best understood by integration of different theories in the field (Coviello and Munro, 1997; Coviello and McAuley, 1999; Bell *et al.*, 2003; Jones and Coviello, 2005). Moreover, the findings confirmed the assumption stated in Chapter 1 (Introduction) that the transferability of findings from one country or industry to another, especially in this case is not possible.

This chapter provides explanation why some of the findings from the literature do not correlate with the empirical findings from the thesis and provides better explanation of the internationalization process of the Macedonian wine producers. First, a big political and societal change had influenced the business in Macedonia. Two years before the dissolution of the Yugoslav federation in 1991, a shift was initiated in the type of majority ownership in the country from so-called societal (similar to state ownership) to private ownership. This process left a permanent mark on the development of various industries, including the wine industry. In this sense, any winery that existed prior to 1991 underwent a change in ownership which resulted in a numerous changes in the structure, functioning, and other aspects of the existing wineries. Such a change can be considered compatible with the changes that lead to the creation of ‘born again global’ firms (Bell *et al.*, 2003). However, unlike the ‘born again global’ firms described in the literature, where the sudden change is usually related to a change in ownership and/or management, which in turn provide additional resources or access to new networks in foreign markets (*ibid*), in the case of Macedonia, the change was caused as a part of an overall political and societal change.

Second, a significant change occurred in relation to the size of the domestic wine market in Macedonia after the dissolution of Yugoslavia. Two thirds of the total wine production of Yugoslavia was produced in Macedonia. At the same time, the wine produced in Macedonia was placed on a domestic market with a total of 22 million inhabitants, a market that after the dissolution of Yugoslavia decreased to 2 million people thus having two major consequences. (A) The domestic market became too small for sustainable placement of the Macedonian wine, which resulted in an immediate need to place Macedonian wine on the foreign markets. Indeed, all the wineries in the sample are motivated to initiate or maintain export activities as a reaction of the limited domestic market, typical for ‘traditional’ firms as described in the literature (Bell *et al.*, 2003). (B) The majority of what used to be the old domestic market now became regional foreign market which in turn created a very specific situation of quasi-internationalization of the Macedonian wine producers characterized by fast expansion to the “new foreign”/regional markets. This explains why the wineries expanded immediately to the foreign/regional markets without following the traditional steps of internationalization as described in the literature (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne,

1977; 1990; Bell *et al.*, 2003). On the other hand, and relevant to both older and younger wineries, the internationalization to the regional markets is facilitated by the psychic closeness of the markets including similar culture, language, wine consumption habits and business practices which is in line with the traditional approach to internationalization (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; 1990; Bell *et al.*, 2003).

Third, although the previously listed country specifics may have facilitated the initial internationalization, they have also impacted efforts for further internationalization to more distant foreign markets. As an example, there was no need to create or develop the image of Macedonian wine on the regional market, as there was a long tradition of consumption of Macedonian wine in the countries of the former Yugoslavia. This meant that the wineries did not gather initial learning experience on image creation and product placement, among other factors, on the closest markets, which in turn became a hindering factor for the internationalization on more distant markets. Indeed, it is evident from the findings that some of the wineries, especially those with less export experience, lack knowledge about the distant foreign markets and trends. Excluding the regional markets, the wineries learn about new foreign market opportunities mainly through the developed network relationships with those markets which are in line with the revised Uppsala model and the network approach to internationalization (Johanson and Mattsson, 1988; Johanson and Vahlne, 1990; 1992; 2003).

In addition to the steep drop in the size of the domestic wine market, the market is limited as a result of two additional factors, the high production of wine by individuals and families and the low wine consumption per capita. Macedonia has a long wine producing tradition, with many individuals and families regularly producing wine to satisfy both their own needs and those of their closest communities (relatives, friends, to sell at their family restaurants, etc). It is estimated that two thirds of the overall domestic market is covered by wine not produced by official wineries. This greatly limits the possibilities for placement of the wine produced by official wineries on the domestic market, and jointly with the low wine consumption of 15 liters per capita (including the wine that is not produced by official wineries), drastically increases the need for wine export in order for the wineries to survive. Such a limitation of the domestic market again explains the main motivation for the wineries to internationalize as well as their international objectives i.e. what they want to achieve by placing their wine outside national boundaries. On bases on findings the international objectives of the wineries are mainly related to the uncertain return on investment and income, resulting from the limited possibilities for wine placement thus motivating the wineries to grow and increase their presence to new foreign markets in order to survive. According to the literature this kind of motivation and international objectives are characteristics of the 'traditional' firms and reflect a reactive behavior to new foreign market opportunities (Bell *et al.*, 2003).

Although the capacity of the Macedonian wineries surpasses significantly the need for wine on the domestic market, the total wine production of the county is very small in comparison to the overall world wine production. As a result, the Macedonian wines lack visibility with the foreign consumers, and the wineries cannot provide stable wine supply in line with the quantity requirements of the foreign markets. This in turn limits the possibility to establish stable, long term, business relations with the foreign partners, and as findings showed this is especially true in the segment of bottled wine exported to countries outside the region. This is in line with the findings from the literature that the long lasting network relationships are built on knowledge and trust among the actors in the network as a result of the past trading experiences between them, thus developing network relationships takes time (Johanson and Mattsson, 1988). On the other hand, the producers of bulk wine have developed a more stable

and long term relationships with their key foreign markets where Macedonia has an image of bulk wine producer dating since the period of Yugoslavia.

On bases of the previous findings in the thesis one of the main hindrances for the Macedonian wine producers to increase their presence in the foreign markets or develop more stable relationships with the existing markets is the lack of image of Macedonia, as a wine country that produces high quality wine, outside the regional markets. The production and exports of wine from Macedonia are still dominated by bulk wine, despite the reorientation of some of the wineries towards bottled wine with higher quality and investing heavily in sophisticated equipment and technology. Moreover, the Macedonian wine producers are faced with another country specific problem that influences the development of the image of Macedonian wine. There has been a fluctuation in the Macedonian wine regions in recent years, with the traditional three wine regions being merged into a single region in 2010 by the new Wine Law (Official Gazette, 50/2010). Although the new Wine Law is in line with the EU requirements on this matter, the state has still not register the wine region, districts, localities, and specific wine unites, which prevents the Macedonian wineries from obtaining a high quality wine classification for their bottled wine. An additional potential problem might arise from the fact that the new single wine region established in 2010 is called Macedonia (a region for production of regional wine), while there already is a wine region with the exact same name registered and protected by Greece (in relation to their northern province of Macedonia).

On bases of the above discussion, the findings showed that as a result of some country specific factors, the international behavior of the Macedonian wine producers to some extent differs from the findings of previous studies. However, regardless of their behavior, the wineries are showing most similar characteristics with the 'traditional' firms as described in the literature identified on bases on the international motivation and objectives, and export approach.

As was discussed previously, the wineries are mainly motivated to internationalize by reactive factors originating from the external/domestic environment (external/reactive motivating factors) (Leonidou, 1995a; Morgan, 1997). Those factors explain the behavior of the Macedonian wine producers as a response to the adverse domestic market and to smaller extent as a result of the unsolicited orders coming from the foreign markets (Piercy, 1981; Katsikeas and Piercy, 1993; Bell *et al.*, 2003). Those factors are associated with the 'traditional' firms (Bell *et al.*, 2003) which usually operate from small domestic markets (Johanson and Wiedersheim-Paul (1975). In addition to the external reactive factors, some of the firms are motivated to internationalize by factors that initiate proactive behavior in looking for new market opportunities steaming from the internal environment of the firm (internal/proactive) (Leonidou; 1995a; and Morgan, 1997). Those are: representative product, size of the winery, possession of financial advantage for marketing the product in foreign countries, potential for growth and information on foreign markets. All of these motivating factors are connected with the wineries unique competences and therefore initiate more aggressive behavior in looking for foreign market opportunities (Piercy, 1981; Katsikeas and Piercy, 1993). The reactive motivation factors are usually associated with the 'born global' firms (Bell *et al.*, 2003) however, the findings from the thesis show that proactive motivation in looking for new market opportunities does not always initiate a proactive expansion to the foreign markets. In other words, the wineries although having capabilities, will expand gradually from psychically close markets to more distant markets showing unrelated expansion typical for the 'traditional' firms (Bell *et al.*, 2003). Such a behavior is a result of

the lack of interest from foreign buyers due to the image of Macedonia as a producer of low to mid-range bulk wine.

The findings confirm previous studies that the motivating and hindering factors may differ in different stages of export development (Wiedersheim-Paul, *et al.*, 1978; Fillis, 2002). For example, in the segment of bottled wine, a winery in the early stage of export development is motivated to internationalize as a result of the adverse home market while the wineries in the more advanced stage of export development, in addition to the adverse home market, are motivated to internationalize by factors connected with their own unique competences.

The main international objectives of the wineries are survival by ensuring sustainable placement on the existing foreign markets, increasing their share in the foreign markets where they are already present, expanding to new foreign markets, increasing sales volume and ensuring return on investment. Those objectives are specific characteristic of the 'traditional' firms (Bell *et al.*, 2003) and are related with the risk steaming from the external environment i.e. limited domestic and foreign markets for placing the wine critical for the survival of the wineries.

Regarding the export approach, on bases on their criteria when choosing foreign markets some of the wineries consider to have a planned approach to internationalization, while they also can act in a less structured manner by showing flexibility in response to the opportunities arising from the foreign markets. This is again related to the limited domestic market and the difficulties in placing the wine in the foreign markets as a result of the lack of image of Macedonia as a wine country, and is thus reflected in the wineries international behavior explaining the unrelated expansion to the more distant markets. Less structured approach to internationalization as well as expansion to unrelated markets are characteristics of the 'traditional' firms as described in the literature (Bell *et al.*, 2003).

In conclusion, the wineries are motivated to internationalize mainly as a reaction to the adverse home market with some of them being additionally motivated by proactive factors, in the more advanced stage of export development. The main hindering factors for their internationalization steam from the domestic market and are reflected in their export activities, thus are beyond the control of the wineries. As a result of the changes and the characteristics in the domestic market and together with other factors influencing the internationalization, the wineries, producers of bottled wine usually commence export activities and are concentrated in the regional markets, while the producers of bulk wine are expanding to foreign markets right after establishment of the wineries mainly in the German market. Some of the wineries that have changed their orientation from producers of bulk wine into producers of bottled and bulk wine have a strong presence in the regional markets as well. On bases on the above discussion, although some of the wineries show behavior similar like 'born global' firms, the findings indicate that they have most similar characteristics with the 'traditional' firms as described in the literature.

## 6.2 Networks and internationalization

The findings showed that the networks relationships (personal or business) can be more important for the internationalization of the wineries instead of their identification process (Coviello and Munro, 1995). The personal and business relationships provide the wineries with information and knowledge about the foreign market opportunities and in some cases new contacts (Johanson and Mattsson, 1988; Coviello and Munro, 1995; 1997; Chetty and

Blankenburg Holm, 2000; Johanson and Vahlne, 2003). The building of new relationships or straightening the already established relationships with the foreign partners are very important for the Macedonian wine producers since this was identified as challenging. As recognized earlier, this is mainly a result of the lack of image of Macedonia as a wine country and the low quantity of wine the Macedonian wineries produce compared to the need for sustainable supply in the foreign markets.

The findings showed that not all of the wineries are aware of the role of the business relationships on their internationalization process. This was related with their short network horizon or weak and unstable relationships to provide them with the international knowledge and information. At the same time the wineries with longer experience, recognize their importance and are oriented towards creation of new relationships.

By the majority of the respondents, the wine associations are not perceived as a place where they can exchange knowledge and learn about new foreign market opportunities which contrast the findings of Johnsen and Johnsen (1999), and Chetty and Blankenburg Holm (2000) about the role of the formal networks on the internationalization of the firms. This can be explained with the finding that all wine associations encountered during the elaboration of the thesis, except for one, are weak and do not initiate collaboration among the members but as well that even joined together the wineries are not prepared to collaborate on various issues.

## 7 Conclusions

The thesis investigated the internationalization process of the Macedonian wine producers and the challenges they face along their internationalization path. The aim of the thesis was to *describe, explain and understand how Macedonian wine producers internationalize.*

The findings showed that the wine producers commence international activities soon or right after their establishment. There is a difference between the international behaviour of the wineries depending on their focus on production of bottled or bulk wine, as well as within a winery in the segment of bottled and bulk wine. The exports of bottled wine are concentrated in the regional markets while the exports of bulk wine are focused at the German market. The wineries have developed a stable and long term relationships with those key markets. Besides the key markets, the further expansion of the wineries is characterized as unrelated, with wine being exported to markets including: USA, Canada, China, Hong Kong and Scandinavia but in significantly smaller quantities.

The wineries begin and maintain export activities as a result of the limited domestic market and, to a lesser extent, as a reaction to the opportunities that arise from the foreign markets in form of unsolicited orders. In the later stage of the export development the producers of bottled wine are motivated to internationalize by proactive factors, such as knowledge about foreign markets and representative product, in addition to the limited domestic market. However, the findings showed that the proactive motivation and approach in looking for new market opportunities, in this case, do not reflect in a proactive expansion to new foreign markets as the wineries are concentrated on few key markets where the wine is exported as bulk or bottled with lower prices, indicating that the expansion to new markets depends from other factors too. It was identified that those are mainly factors that originate from the domestic environment that and are reflected on the export activities of the wineries in the foreign environment, and thus are beyond their control. Examples are: lack of country image outside the regional markets, underdeveloped support industry, lack of governmental support and unregistered wine regions in the EU as a country specific factor that influences the development of image of Macedonia as a producer of quality wine.

The findings indicate that the personal and business networks provide foreign opportunities for the wineries in terms of exchange of information and knowledge about new foreign market opportunities and in some cases initiate establishment of new contacts and business relationships. However, not all of the wineries are aware about the role of the business and personal relationships on their internationalization process. In addition, the wine associations, except for one association, are not perceived as an instrument that creates international opportunities for the wineries.

The level of presence of the Macedonian wine producers in the foreign markets is not sufficient to meet the quantity production potential of the wineries. Thus further expansion on these markets and to new foreign markets and the development of stable business relationships, would allow for utilization of their unused production capacities, thus higher profitability, which will enable them to invest in new technology and equipment or innovation. Moreover, it will be beneficial to the overall Macedonian economy and employment in the viticulture regions.

## **Implications:**

The findings of the study, based on the information from the interviews and the reviewed literature, are of importance to the decision and policy makers in the field of wine in Macedonia.

### Decision makers:

The decision makers should consider adopting more proactive approach to internationalization since the establishment of the winery, and not only in the later stages of export development. This should be done on bases of the competitive advantage of the winery. Some of the wineries are already trying to differentiate from others (ex: packaging) in order to make their product more attractive. However, in line with the suggestion of one of the respondents and considering the constant change in the consumer preferences, which requires continuous adaptations and financial investments, the wineries may consider focusing at production and promotion of blends between the regional and local wine varieties with international varieties, which may create an interest from the foreign consumers. In this light, one of the respondents explained:

*“The world does not want to see another Chardonnay, even less a Chardonnay from Macedonia; the world trusts the French winemakers with that specific variety. We should probably try a Vranec blend - Vranec with Merlot, Vranec with Cabernet - in order to offer something unique on the foreign markets, something that cannot be offered by other countries” (Winery L1, personal communication, 2011-07-06).*

Moreover, the decision makers should try to minimize the effect of hindering factors that are controllable by the firm itself, i.e. internal hindrances. The findings showed that finance is the biggest internal hindrance for the international activities of the wineries. In addition, the knowledge of foreign markets is lacking among some of the wineries as well. It may be overcome by using consultant services, but it will require additional financial resources, or through exchange of information and experience between the competitors in the domestic market.

The thesis identified that the network relationships are very important for the international growth of the wineries although some of the wineries in the sample do not recognize their importance. Therefore, it is very important for the decision makers to understand the value of network relationships and implement network development in their strategies.

Regarding the formal structured networks (wine associations), whether they are organized by the wineries or some other organizations, they should be established only where preconditions for collaboration exist in order to ensure sustainability of the networks. Given the situation in the subsector, a strong direction and leadership is desirable and it seems that it already exist among a group of successful bottled wine producers. A leader can be a whole network or an influential winery. However, the subsector is represented by 86 wineries, and regardless of the fact that the bottled and bulk wine require implementation of different strategies, a joint direction and vision (long term) should include both segments and all wineries. For instance, an aggressive promotion of bottled wine with high quality may be applied in the European countries where Macedonia is already known as a producer of bulk wine, rather than in countries where Macedonia is not known as a wine country at all.

### Policy makers:

The findings showed that the international activities of the wineries in the sample are mainly constrained by factors originating from the domestic environment which are not controllable by the wineries themselves. However, with respect to the significance of the wine subsector for the national economy, the policy makers should consider to undertake some measures in order to facilitate the internationalization process of the Macedonian wine exporters and thus initiate utilization of the unused production capacities of the wineries.

The policy makers can encourage proactive motivation for the wineries through different activities. For example they can organize educational workshops and seminars for the procedure requirements in different foreign markets. They can help the wineries by conducting a research about the possibilities and trends in the foreign markets. In this way the wineries will be able to save financial resources as well as time and devote to the activities in the domestic market as well.

The promotion of Macedonia as a wine country is one of the most important activities that the policy makers can undertake in the moment. Because only one of the wineries recognized the governmental support in promoting the whole subsector, the promotion should be done on bases on the needs and in agreement with the wineries.

In addition a strategy for the whole subsector should be made for a longer period, for example twenty years with adjustments on a yearly level based on the trends in the markets and with realistically achievable long term goals. The strategy should include both segments; bottled and bulk wine and it should be prepared jointly with the wine producers.

The policy makers should consider stimulating the development of wine production supporting industries. The production of bottles and corks in the domestic markets will definitely bring many advantages for the Macedonian wine producers, most importantly in lowering the production costs for bottled wine which will allow the wineries to offer their quality wine in the foreign markets for competitive prices. At the same time, the wineries are developing wine tourism on their wine cellars, which can be very beneficial for improving the country image and attracting foreign tourists and capital in the country, however it should be long term sustainably supported by the government, in line with a strategy elaborated in a wider consultation with the wineries.

The policy makers should consider establishing new or intensifying the existing free trade agreements. And at the same time they should create conditions and motivate the producers of bulk wine to reorient towards production of bottled wine with high quality (e.g. through the development of support industry, as noted previously).

Finally, sustainable and long term development of the Macedonian wine subsector, including the increasing competitiveness of its products on the foreign market, will only be possible if and when the country manages to register its wine region, districts, localities and specific wine units with the EU, as foreseen by the Wine Law (Official Gazette, 50/2010), as well as solve the problem of the name of the Macedonian wine region.

**Limitations:**

The method applied in the study does not allow for generalization of the findings to the whole population, i.e. all wineries in Macedonia. However, any wine producer from Macedonia, engaged in exporting or intends to export, may find the results helpful.

**Future research:**

A similar study may be conducted to include other industries from Macedonia or the same industry but in the regional countries which will reveal whether the results are unique to the industry and/or Macedonia. Although it was noted previously that some country specifics, that are not characteristic of other countries, influence the internationalization process of the Macedonian wine producers thus should be taken into consideration if similar research should be done.

Internationalization is a broad area and affects many aspects internal and external to the firm. A future study may be focused only towards, for example: the role on networks or decision makers, on the internationalization process of the Macedonian wine producers that will produce a more detailed analysis. Or a future study can be conducted to examine why some wineries from Macedonia do not export at all and what are their perceptions over factors that may hinder the internationalization process.

A study may examine the willingness between the wine producers in Macedonia to collaborate on domestic and export related issues, how that collaboration can be stimulated and another study may examine what are the reasons behind the success or failure among the wine associations in Macedonia.

At the end a same research, with the same respondents and wineries, can be conducted by the researcher in several years in order to produce longitudinal case study in order to provide better explanation of the internationalization process of the Macedonian wine producers.

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## Internet

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EC, European Commission, <http://ec.europa.eu/>

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## Personal messages

Winery S1

Interview, 2011-06-27

Winery S2

Interview, 2011-06-29

Winery M1

Interview, 2011-07-23

Winery M2

Interview, 2011-06-29

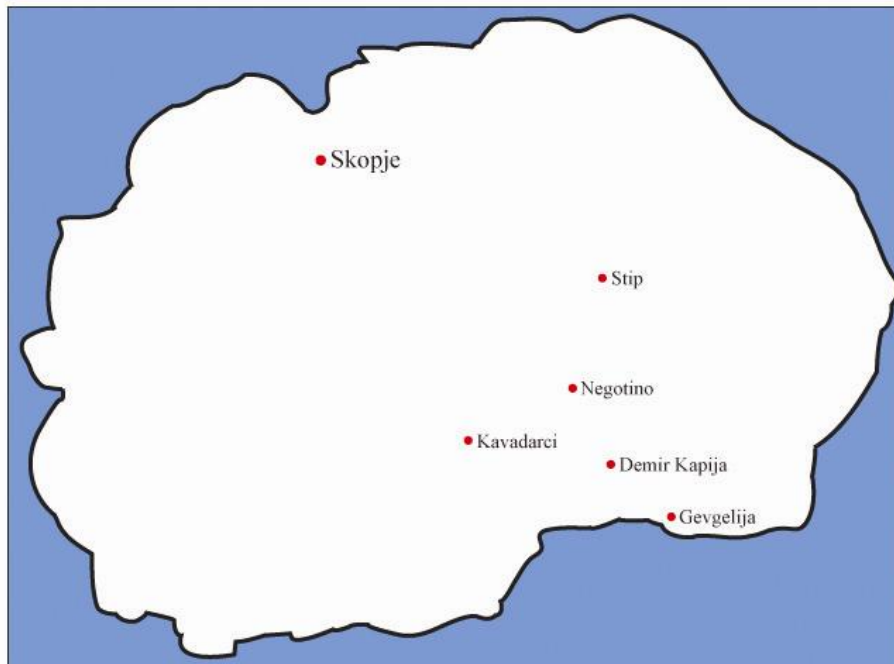
Winery M3

Interview, 2011-07-11

Winery L1

Interview, 2011-07-06

## Appendix1: Map of Macedonia



*Map of Macedonia*  
Source: based on NARDS (2007)



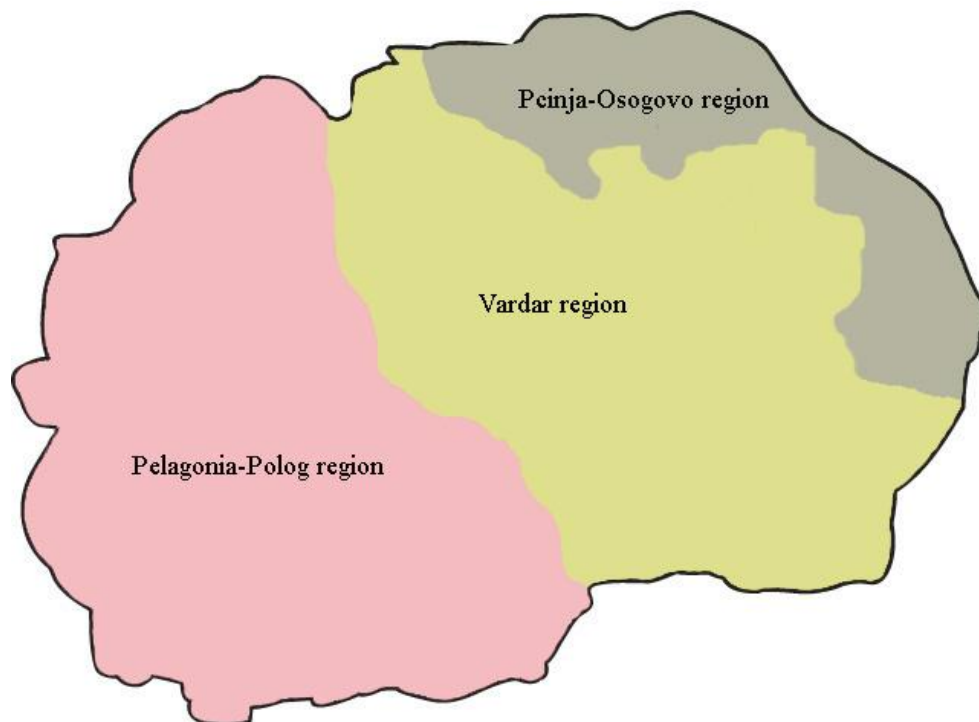
*Map of Europe (Macedonia in red)*  
Source: adopted and adjusted from [cmap.comersis.com](http://cmap.comersis.com)

## Appendix 2: Wine regions in Macedonia



### *Wine region and districts*

Source: based on Manevska Tasevska (2006) and Regulations for geographic areas planted with vines for protection of the geographic origin of the wine from the Republic of Macedonia (Official Gazette, 134/2008)



### *Old wine regions*

Source: based on Manevska Tasevska (2006)

## Appendix 3: Invitation Letter (English version)

Iva Joveva  
Department of Economy  
Swedish University of Agricultural Sciences  
SLU, P.O. Box 7070  
SE 750 07 Uppsala, Sweden  
Phone: +389 75 572 597  
e-mail: [iva.joveva@gmail.com](mailto:iva.joveva@gmail.com)

Dear Sir/Madam,

My name is Iva Joveva and I am a Masters student at the Swedish University of Agricultural Sciences in Uppsala, Sweden. I am currently working on my Masters' thesis entitled *Internationalization of the Macedonian wine exporters*, under the auspices of Prof. Bo Öhlmer from the Department of Economy, Swedish University of Agricultural Sciences in Uppsala, Sweden, and Prof. Nenad Georgiev from the Department of Agricultural Economy and Organization, Ss. Cyril and Methodius University, Skopje. By way of this letter, I would like to kindly invite you to participate in the thesis research.

The aim of the research is to *describe, explain and understand how the Macedonian wine producers behave in the internationalization process*. The research will *identify the most important factors that influence the internationalization process, with a primary focus on the role of networks*. The research will aim to provide useful information to the owners/managers who will participate in it, as well as useful guidelines for the further internationalization of their firms.

I strongly believe that your personal knowledge and experience, as well as the experience of your firm will greatly benefit the research, and I would thus like to invite you to participate in a face-to-face interview/conversation. The interview, which will last approximately one hour and will be conducted at a location that you propose, will be based on open questions relevant to the international experience of the firm that you represent and the factors that influence that experience. The information collected in the course of the interview will solely be used by the researcher for further analysis, while the final results will be made available to all participants in the study.

The participants in the study (representatives and wineries) will not be individually named within the study itself, unless they insist to be. Unless the participants reject, all interviews will be audio recorded. The participant is not required to answer each question and can withdraw from the interview at any point. In order to verify the reliability of the information collected during the interviews, a summary of the interview will be sent to the participant in the days following the interview.

Should you have any further questions in relation to the research, feel free to contact me at the above listed e-mail and phone contacts. I will contact you in the course of the following days to enquire about your availability, possible dates for the interview, as well as answer any questions you might have.

Kind regards,

Iva Joveva  
*Masters student*  
*Swedish University of Agricultural Sciences, Sweden*

## Appendix 4: Invitation Letter (Macedonian version)

Ива Јовева  
Катедра за Економија,  
Шведски Универзитет за Земјоделски Науки  
SLU, P.O. Box 7070  
SE 750 07 Uppsala, Sweden  
Тел: +389 75 572 597  
Е-маил: [iva.joveva@gmail.com](mailto:iva.joveva@gmail.com)

Почитуван/а,

Се викам Ива Јовева и сум мастер студент на Шведскиот Универзитет за Земјоделски Науки во Упсала. Моментално работам на мојата мастер теза: *“Интернационализација на македонските извозници на вино”* (*“Internationalization of the Macedonian wine exporters”*), под менторство на Проф. Во Öhlmer од Катедрата за Економија на Шведскиот Универзитет за Земјоделски Науки во Упсала и Проф. Ненад Георгиев од Катедрата за Економика и Организација на Земјоделството на Универзитетот Св. Кирил и Методиј во Скопје. Со ова писмо би сакала да ве поканам да учествувате во истражувањето.

Целта на истражувањето е да се опише, објасни и разбере како македонските производители на вино настапуваат во процесот на интернационализација. Со истражувањето ќе се идентификуваат највлијателните фактори кои влијаат на процесот на интернационализација, со примарен фокус на улогата на мрежите. Истражувањето ќе обезбеди корисни информации за сопствениците / менаџерите кои ќе бидат дел од истото како и корисни насоки за идната интернационализација на нивните фирми.

Сметам дека вашето знаење и искуство, како и искуството на вашата фирма ќе имаат голем придонес во истражувањето и за таа цел ве поканувам да учествувате на лице в лице интервју/разговор. Интервјето ќе биде со времетраење од околу еден час, на локација која вие ќе ја предложите и ќе се состои претежно од отворени прашања во врска со интернационалното искуство на фирмата која ја претставувате и фактори кои влијаат на истото. Информациите од интервјето ќе бидат искористени исклучиво од страна на истражувачот за понатамошна анализа а финалните резултати ќе бидат достапни на сите учесници.

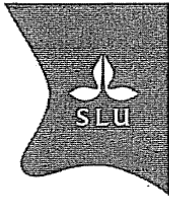
Учесниците во истражувањето (претставници и винарии) нема да бидат именувани, освен доколку истите не инсистираат на спротивното. На барање на истражувачот, интервјето ќе биде аудио документирано, но само со дозвола на учесникот. Учесникот не е обврзан да даде одговор на секое прашање и може да се повлече од интервјето во секој момент. Резиме со информации од интервјето ќе биде по електронски пат доставено до учесникот во рок од неколку дена по интервјето со цел потврда за веродостојноста на информациите.

Доколу имате прашања во врска со истражувањето, слободно контактирајте ме на мојот е-маил или телефон. Јас ќе ве контактирам во текот на следните неколку дена во врска со вашата достапност и можни термини за интервјето и доколу имате, да одговорам на дополнителни прашања. Искрено ја ценам вашата подготвеност за соработка.

Со почит,

Ива Јовева  
Мастер студент  
Шведски Универзитет за Земјоделски Науки

# Appendix 5: Cover Letter (SLU)



Swedish University of Agricultural Sciences  
Department of Economics  
Bo Öhlmér

16 February 2011

To whom it may concern

## Certificate

Iva Joveva is writing her Master Thesis entitled "Internalization of the Macedonian wine cluster" as part of a Master programme at the Swedish University of Agricultural Sciences. She will need information from Macedonian wine organizations and grape producers as a basis for her thesis, and we would be very grateful for assistance in collecting this information. Thank you for your assistance.

Uppsala 2011-02-16

A handwritten signature in cursive script that reads 'Bo Öhlmér'.

Bo Öhlmér

Professor and supervisor

Department of Economics, PO Box 7013, SLU  
SE 750 07 Uppsala, Sweden  
Phone: + 46 (0) 18- 67 17 26  
Fax: +46-(0) 18 – 67 35 07  
E-mail: Bo.Ohlmer@ekon.slu.se  
Web: www.ekon.slu.se

## Appendix 6: Cover Letter (FASF)

Почитуван/а,

Ива Јовева, студент на Шведскиот Универзитет за Земјоделски Науки во Упсала, Шведска работи на мастер теза “*Интернационализација на македонските извозници на вино*”. Трезата е дел од проектот “*Градење на капацитети за Македонското високо образование, истражување и анализа на политиките во земјоделството*”, имплементиран од страна на Факултетот за Земјоделски Науки и Храна, Универзитет Св. Кирил и Методиј, Скопје и Шведскиот Универзитет за Земјоделски Науки во Упсала. За изработка на тезата се потребни информации од неколку прозводители на вино од Македонија.

Согласно горенаведеното, Факултетот за Земјоделски Науки и Храна би бил благодарен доколку се согласите да се состанете со Ива Јовева, во најбрзо време кога вам ви одговара, и  ги дадете потребните информации за истражувањето. За повеќе информации контактирајте ја директно Ива Јовева на е-маил: [iva.joveva@gmail.com](mailto:iva.joveva@gmail.com) или тел: 075/572 597.

Ви благодариме за соработката.

Скопје,  
17.06.2011

  
Драги Димитриевски  
Декан на Факултетот за Земјоделски Науки и Храна

## Appendix 7: Interview guide

	Questions	Prompts
<b>Background</b>	1 Can you provide me with general information about your firm?	
<b>Internation.</b>	2 What motivates your firm to go international?	
	3 What are the international objectives of your firm?	
	4 How does your firm learn about new potential international opportunities?	<i>Own identification process, business, personal relationships..</i>
	5 What are the criteria of your firm when choosing new markets?	
	6 Which entry mode your firm uses when entering new markets?	<i>Directly/indirectly</i>
	7 How will you describe the first international experience of your firm?	<i>When, where, how</i>
	8 Can you chronologically describe the international experience of your firm?	<i>When, where, how</i>
	9 How important is the psychological distance for the international activities of your firm?	<i>Differences in language communication, business practice</i>
	10 What are the main firm specific factors that stimulate your firm to go international?	
	11 What are the main external factors that stimulate your firm to go international?	<i>Domestic and foreign environment</i>
	12 What are the owner or manager characteristics that influence the international decisions of your firm?	
	13 What are the main obstacles that prevent your firm to expand to foreign markets?	
	14 How will you describe the international strategy of your firm?	
	15 What are the future plans of your firm?	
<b>Networks</b>	16 Can you tell me about your firm practice in establishing business relationships with foreign partners?	<i>Description and length</i>
	17 How do those relationships influence the international growth of your firm?	<i>Ex: information, knowledge, marketing activities, contacts etc</i>
	18 Do you find your personal relationships as important for the international growth of your firm?	<i>Ex: information, contacts etc</i>
	19 Does your firm use services from others in order to establish a contact or enter a foreign market?	<i>Ex; trade company, consultancy firm etc</i>
	20 Is your firm a member of a local wine association/s?	<i>Which one/s?</i>
	21 What are the advantages of being a member of an association?	
	22 Does the membership in an association increase your firm international opportunities?	<i>Ex: information about foreign market opportunities, contacts etc</i>
	23 Does the membership in an association ever influence the international decisions of your firm?	

24 Does the Government supports the international activities of your firm and how?

25 Are there any other circumstances, relationships or organizations that have influenced your firm internationalization process?

*Ex: Government, Universities, research institutions, etc.*

26 Did any of the previously discussed relationships ever constrain the international growth of your firm?

**Respondent profile**

Position in the firm

Duration of working experience within the firm

Previous experience in the field

Previous international experience

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