[Editorial] Information technology governance in Internet of Things supply chain networks

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DRIVERS OF SUCCESSFUL INTERNATIONAL BUSINESS STRATEGY: INSIGHTS FROM THE EVOLUTION OF A TRADING COMPANY

ABSTRACT

Purpose - The purpose of this paper is to identify and describe the drivers of trading company strategy that explain trading company success in international business.

Design/methodology/approach - The strategy tripod that results from combining the industry-, resource- and institution-based views, each of which proposes specific drivers of strategic success, was used as the framework for investigating, in a longitudinal perspective, the drivers of the strategy of a trading company and its success in emerging economies. Data were collected using in-depth interviews, document analysis and non-participant observation and analyzed using content analysis techniques.

Findings - Rather than a single driver, we found that strategic choices were driven at times by the demands of industrial competitiveness, at times by firm resources and capabilities, and at times by institutional conditions. There was evidence neither of a linear chronological order for these drivers, nor of driver obsolescence. On the contrary, findings suggest that drivers are cumulative and interactive. Changes in organizational resources and capabilities or in competitive or institutional environments can force review and re-thinking of strategic objectives.

Research limitation - Generalization is affected by the fact that the study focuses on the experience of one individual trading company.

Originality/value - The paper is of value in showing the drivers of trading company strategy and the determinants of trading company success in emerging economies using a longitudinal perspective rather than the more usual sectional perspective. In addition, the study is original in simultaneously investigating all three legs of the strategy tripod and providing empirical evidence about how the respective drivers interact over time.

Keywords: Trading Company, Emerging Economies, Strategy, International Business.

INTRODUCTION

Trading companies are often studied as parts of distribution systems, more specifically in the literature on distribution channels and production chains (Stern, El-Ansary and Coughlan, 1996). In most cases, these companies are portrayed as, in the words of Chintakananda, York, O'Neil and Peng (2009, p. 304), “specialized service firms that support domestic producers by connecting them with foreign buyers,” giving the impression that they are commercial go-betweens that establish linear relationships with suppliers and with buyers and obtain their profits from transactions between them.

A number of studies can be found dealing with one or another aspect of trading company activity. These aspects include the factors influencing the selection of trading companies, the commitment existing between trading and producer companies, the export performance of firms that use the services of trading companies, and bilateral relationships in which trading companies are involved (Ahn, Khandelwal and Wei (2011); Chintakananda et al., 2009; Gencturk and Kotabe, 2001; Lages and Montgomery, 2004; Madsen, Moen and Hammervold, 2012; Peng, Zhou and York, 2006). However, studies that analyze the operations of trading companies in a holistic manner - i.e., as part of a tripartite relationship between suppliers and buyers in the contemporary international business market - are scarce. Studies that take a strategic look at the operations of trading companies are even rarer.

The current business environment experienced by trading companies is considerably more complex than the turbulence described by Achrol (1991), owing to the dizzying increase in globalization that has taken place since then. In the view of Ellis (2001), globalization represents a serious menace to the trading company. He affirms that new technologies for communication, transport, and banking/ finance systems, combined with the growing internationalization of manufacturers and retailers, has forced changes in a number of the traditional functions of international distribution, including those performed by trading companies.

Overall, international business studies tend to focus on commerce from developed to emerging markets or vice versa (Carney, 2005; Wright, Filatotchev, Hoskisson and Peng, 2005), failing, as a result, to provide a complete picture of contemporary international trade in which developing market to developing market transactions are of increasing importance.

In view of these shortcomings, it is our objective here to contribute to a fuller, more complete understanding of the current role and operations of trading companies in international business, in the light of Peng's questions (2004, 2003) about what drives firm strategy and what are the determinants of success or failure in international business. To this end, we seek to understand trading company operations holistically, rather than partially, incorporating the ideas of Peng, Wang and Jiang (2008) and Peng and Pleggenkuhle-Miles (2009) about strategy and focusing on international business transactions between emerging economies.

More specifically, we examine what has driven the strategy of a specific trading company and what appears to explain its success. To elucidate these questions, we undertook a case study of a successful trading company, one that has consistently registered sales growth, operating profits and return on investment in scenarios in which other trading companies are struggling, as Ellis (2001) has shown. This company conducts most of its business with companies from emerging economies.

THEORETICAL FRAMEWORK

We adopt in this study a broader concept of trading companies than that used by Chintakananda et al. (2009), who characterize them narrowly as supporting agents or transaction facilitators. We consider these firms as businesses in their own right that actively pursue strategic objectives of their own and are characterized by complex operations and expertise in intermediation carried out either on a commission basis or through purchase and resale of products (Ellis, 2001; Peng and York, 2001). This intermediation goes beyond simple one-on-one relations, involving multiple agents relating horizontally and/or vertically, and active participation in the structuring of transactions (Dyer and Singh, 1998; Fung, Chem and Yip, 2007; Hakansson and Snehota, 1995; Havila, Johanson and Thilenius, 2004).

Trading companies.

These companies, as mentioned above, take part in a dialogue among economic agents, positioning themselves as a key link in a triangular or triadic business relationship that also involves a supplier and a buyer. The use of the concept of triangular or triadic relationship has been borrowed and adapted from Granovetter (1973), who uses it in discussing three-way relationships involving intermediaries. Havila et al. (2004) suggest that the term can be applied to relationship triads in international business in two ways, as we depict in Figure 1.

[PLACE FIGURE 1 ABOUT HERE]

The first way in which the term triad can be used is to refer to closed interaction, where the three partners in the relationship have the same or nearly equal influence, on the transaction and in which the links A, B and C occur simultaneously. In this case, the trading company acts as a broker commissioned by one or other of the parties, advising or acting on behalf of that party. The second way refers to open interaction, in which the relationship among the various agents varies in intensity. In this case, the trading company interacts with client (link B) and also with supplier (link A) in order to carry out a subsequent supplier-client transaction (link C). In this kind of transaction, relationships (A) and (B) precede relationship (C).

In an open interaction, the trading company acts as a dealer/middleman holding property rights over the product being traded and having direct impact on how it is priced. In this case, relations are, in fact, bilateral, between A and B, with the trading company perceiving the possibility of a linkage (C) between buyers and suppliers of benefit to both. In a closed interaction, however, the trading company acts as a broker having a relationship with supplier and buyer, and intermediates the transaction in which the supplier sells to the buyer. In other words, in an open interaction, the trading company buys and sells bilaterally, while in the closed interaction, it does not buy or sell anything. Rather, it brokers the process and receives a percentage of the sale of one or other party (or both).

The triad, like any other inter-organizational business network, can be understood as an organic system susceptible to analysis which can include, depending on the nature of the inquiry, an examination of relationships, structures, locations and processes (Easton, 1992). While dyadic links can be used in analyzing inter-organizational networks (Easton,1992), given the nature of the business of a trading company, we believe that using the triad as unit of analysis permits a more complete, overall understanding of the relationships involved.

Figure 1 depicts the triadic relationship between a trading company, a supplier and a buyer. It does not, however, depict the full range of possibilities available to a trading company. Trading company interaction is not limited to one supplier and one buyer. Rather, they interact with a portfolio of potential suppliers and buyers (Ellis, 2001; Sluyterman, 1998).

The interactions represented by the lines A, B and C in Figure 1 are thus a considerable simplification. In addition to the wider range of possibilities deriving from a portfolio of multiple suppliers and buyers, there are the difficulties with transactions and costs arising from them pointed out by Williamson (1991), such as limited rationality and opportunism, augmented by the fact that the transactions in question are international in nature and normally carried out in conditions involving considerable geographical distances and contexts characterized by institutional complexity resulting from the cultural, political, legal and regulatory differences between the home countries of suppliers and buyers. Dealing with this complexity and overcoming the difficulties arising from different institutional conditions is an integral part of the service performed by a trading company. The ability to deal with these difficulties is developed out of experience over time, becoming part of its core business and is what permits a trading company to explore business opportunities in different countries or regions (Jones, 1998; Sluyterman, 1998). It can therefore be inferred that in line with the ideas of Hakansson and Snehota (1995), the growth and development of a trading company business can be better explained by evolutionary factors than by deterministic ones, and that trading companies come to perceive their business environment as a large network of possible interactions, not necessarily restricted to the economic plane, but involving social and institutional relationships and activities as well (Hakansson and Snehota, 1995; Peng, et al., 2008; Thomé, Vieira and Santos, 2012).

Strategy in international business.

The last thirty years have been marked by changes in the international economic scenario and business environment. Important among these changes is the emergence of newly industrialized countries such as Singapore, South Korea and Hong Kong, and - more recently - of Brazil, Russia, India and China. The impact of these countries when they began to engage in international trade was such that international business researchers have come to call the phenomenon the “third wave” (Jansson, 2007; Martell, 2007).

Observing this movement, Peng (2004, 2003) has questioned the applicability of the strategic factors postulated by earlier theories with respect to what drives firm strategy and determines organizational success and failure in international business. Drawing on the discussion of institutions by thinkers such as North (1990) and Scott (1995), he has pointed to the need to complement and extend theories based on industry competition (Porter, 1980) and resources (Barney, 1991). Although Peng et al. (2008) recognize the importance of industrial competition and the firm's resources and capabilities, they point out that the need to address the role played by formal and informal institutions in molding strategy became evident when firms from emerging and developing countries became active on the international business scene. Suggesting the institution- based-view as a new approach to research in international business strategy, Peng et al. (2008) and Peng (2006) have postulated what they call a “strategy tripod”, as shown in Figure 2.

[PLACE FIGURE 2 APPROXIMATELY HERE]

The institutionalism of Peng et al. (2008) and Peng and Pleggenkuhle-Miles (2009) is influenced by the ideas of North (1990), who conceptualizes institutions as the "rules of the game" regulating the economic interaction between firms and of Scott (1995), who conceives them not just as regulatory structures, but as normative and cognitive structures, as well, that together bring stability and predictability to social behavior. Taken together, these two perspectives, one essentially economic and the other essentially social, cast an eye on the formal and informal aspects of institutions, applicable in many areas, including international business.

From this institutional perspective, then, Peng (2003) observed that one of the characteristics of emerging economies is their propensity to change the formal and informal rules of the game, consequently forcing changes in how it must be played. In other words, institutions in emerging countries are often of a “transitory” nature. This fact is also emphasized by Meyer and Peng (2005), who treat them in the cases they studied, as consequence of transformation of from socialism to capitalism of the economies of Russia and the Eastern Europe countries. These authors, and others like Aidis and Adachi (2007) and Thomé and Vieira (2012) comment on the difficulties this poses for the operation of foreign companies in these markets.

Peng et al. (2008) argue that institutional conditions and transitions are a factor influencing business strategy in these countries in the same way as industrial-based competition and the firm-specific resource and capabilities, a position maintained in the study of Peng and Pleggenkuhle-Miles

(2009), which present the institutional approach as the connecting link between several current debates in the field of global strategy.

We have adopted this position in our study, using the strategy tripod (Peng, et al., 2008) - firm-specific resources and capabilities, industrial competitiveness, and institutional conditions and transitions - to identify what has driven the strategy of the trading company studied and the factors determining its success.

As attributes of industrial competitiveness capable of providing advantages in terms of cost, niche or differentiation (Porter, 1985), we have followed Ellis (2001) in employing the variable of specialization/diversification as observed in three dimensions: product (type of product), geography (local suppliers and buyers), and function (middleman and/or commissioned).

Resources and capabilities observed in the study are three of the four suggested by Barney and Hesterly (2010): physical (installations, equipment, geographic localization, access to raw materials); human (experience, tacit knowledge, relationships of individual firm members); and organizational (internal processes and systems, culture, reputation, inter-organizational relationships).

Both the resource-based view and network theory suggest that path dependency plays a role in shaping firm or network resources and capabilities (Barney, 1991; Barney, et al, 2001; Dyer and Singh, 1998). The resource-based view postulates that competitive advantage derives from the value, scarcity (rareness), inimitability, and non-substitutability of firm resources and capabilities and how they are used (Barney, et al., 2001). Peng (2001) confirms the applicability of these concepts in international business strategy, arguing that resources accumulated in the conduct international business can generate benefits for their owners. He calls attention to the social capital developed in business networks and the tacit knowledge that the company develops and seeks to maintain in global business, treating them as what Mills et al. (2002) call core competences.

Linking the resource-based view and institution-based view is the insight of Wright, et al. (2005) that in emerging and transition economies, firms may face shortages and even obsolescence of resources. In such circumstances, what once were valuable resources, under a previous system of government, for example, become less valuable in a market-oriented institutional environment. Thus, organizational arrangements, such as conglomerate business groups and networks, can be a form of adapting to the kinds of market institutions present in emerging economies. As emerging economies move toward market institutions, the business networks operating in these economic contexts may need to restructure themselves in order to access the resources and capabilities needed to succeed in a more competitive and dynamic environment (Oliver, 1997; Peng and Zhou, 2005; Thomé and Vieira, 2012). They may need to develop what Teece et al (1997) call dynamic capabilities to enable them to renew/reconfigure competences congruent with the changing business environment.

The institution-based view draws attention to the fact that formal and informal structures not only regulate the emergence and development of businesses and shape industry competition, but influence firm access to resources and capabilities, as well (Peng, et al., 2008; Peng and Pleggenkuhle-Miles, 2009). The institutional variables of interest to this study are depicted in Table 1.

[INSERT TABLE 1 ABOUT HERE]

As depicted in Table 1, institutions can be conceptualized as constituted by the degree of formalization involved (North, 1990) and whether they are coercive, normative (social) or cognitive in nature (Scott, 1995), and operationalized respectively as formal rules, laws, regulations, socially established group standards and cultural values, and individual cognition influenced by ethnicity, religion and education.

The variables used in observing performance were those utilized by Ellis (2001)--sales growth, operating profits and return on investment, although observed for a far greater period of time. Whereas Ellis (2001) followed these performance variables over a period of 3 years, this study covers 25 years. Our understanding, based on Ellis (2001) and on Fung, Chen, and Yip (2007), is that in a scenario in which trading companies are struggling to survive, a company that demonstrates progressive growth along these three variables over such an extended time period is successful.

While selecting cases on the basis of the dependent variable is widely critized in quantitatively oriented research, it is an accepted—and even recommended—practice in qualitatively oriented research (Bennett and Elman, 2006; George and Bennett, 2005). This and other matters related to methodology are discussed in the following section.

METHOD

This study is exploratory and descriptive, using a case study strategy (Bennett and Elman, 2006; George and Bennett, 2005; Gibbert, Ruigrok and Wicki, 2008) and qualitative data (Miles and Huberman, 1994). Birkinshaw, Brannen and Tung (2011) observe that although qualitative studies in the past have played a prominent role and enriched the international business field, starting in the 1990s they began losing ground to quantitative research. The authors suggest that recently there has been resurgence in the use of qualitative methods, owing to the possibility of combining techniques for describing, coding, translating and interpreting that permit understanding on a basis other than frequency. Qualitative research is considered eminently appropriate for capturing the organic phenomena present in the international business environment (Welch et al, 2011; Doz, 2011).

Other recent work, however, has cast doubts on the rigor of case study research. Westney and Van Maanen (2011) observe that research obtained through qualitative methods is often unreflective about how their sources shape the narrative, while Gibbert, et al. (2008) criticize such research for not meeting standards of validity established for quantitative research.

In response to this kind of criticism, Yanow (2006) argues that good qualitative, interpretative research is rigorous; it is not unsystematic, unreflective or impressionistic. Qualitative research must meet criteria for quality, but these are not precisely the same criteria that must be met in quantitative research.

Schwartz-Shea (2006) details the criteria which must be met by qualitative/interpretative research, comparing them with the criteria for quantitative research. Based on literature review, her study identified four criteria common to both ontological/epistemological communities. The criteria take on different forms in the two communities, but in their essence they express the same qualities: truth (called internal validity in quantitative research and credibility in qualitative research); applicability (called external validity or generalizability in quantitative research and transferability in qualitative research); consistency (called reliability in both quantitative and qualitative research); and neutrality (called objectivity in quantitative research and confirmability in qualitative research).

In addition, Schwartz-Shea (2006) identified a variety of techniques and practices utilized to guarantee the quality of qualitative research and enable it to meet the above-described criteria. These include three which are invariably recommended in texts on social science methods: rich and detailed narrative of the phenomenon of interest and presentation of data sufficient to support researcher interpretation; reflexivity, which involves acute consciousness and reflection on the part of the researcher of his role and impact in all phases of the research process; and triangulation, which involves recognition of the multidimensionality of the research process and the use, among others, of multiple data sources, multiple methods for data collection, and multiple researchers. The use of triangulation techniques is seen as forcing researchers to think about and confront, rather than ignore, conflicting or inconsistent evidence and outliers, as well as to avoid giving preference to one source of information over another.

In addition, Shwartz-Shea (2006) identified in the qualitative methods literature three other frequently recommended techniques: providing feedback to informants that permits testing researcher comprehension of the data provided by those informants; documentation of procedures; and negative case analysis, a practice in which the researcher actively procures evidence that might force reexamination of initial interpretations of preferred explanations.

In this study, we opted for the use of a case study strategy and qualitative data in view of the strengths offered by this approach with respect to the objectives of the study (Welch et al, 2011; Doz, 2011). In order to avoid the potential threats to quality inherent in the approach chosen, the techniques for guaranteeing the quality of this research identified by Schwartz-Shea (2006) were carefully observed, as detailed in Table 2.

As mentioned, the trading company studied was chosen because it has been successively operating in international business for nearly 25 years. In other words, the case was selected on the basis of the dependent variable, which is an acceptable procedure in qualitative research. As Bennett and Elman (2006) point out, selection bias is to be avoided in quantitative research, where such selection distorts the regression line, but does not apply in the same way to case study research, where inferences are drawn from within-case process tracing. Process tracing, in this view, permits addressing questions of path dependence and interaction effects and inferences developed by this method can contribute to theorizing. It must be emphasized that within-case methods do not depend on establishing causation by means of comparison. Rather, process tracing provides a "continuous and theoretically based historical explanation of a case" (George and Bennet, 2005:30) in which observations with respect to contributions to the outcome observed are guided by and explained by reference to theory.

In view of the objectives of the study, then, a case of success, defined as progressive growth in the performance variables of growth in sales, profits and return on investment was chosen for investigation. The company studied, carried out approximately US$60 million dollars in transactions per month during 2010, with approximately 90% of these operations involving trade between emerging economy firms.

This case thus permits, as well, a different perspective on international business than ordinarily presented in the literature, which tends to focus on the conduct of business between developed country and emerging or developing country firms. (See, for example, Meyer and Peng, 2005; Peng, et al., 2008; Peng and Pleggenkuhle-Miles, 2009; Wright, et al. 2005.) In addition, and very importantly, its managers were willing to provide data for our research.

The research was conducted in six steps outlined in Table 2, over the months of July 2010 to January 2011.

[INSERT TABLE 2 ABOUT HERE]

For data collection, scripts for semi-structured interviews, non-participatory direct observation and document analysis were used were used taking as their basis the strategy tripod (Peng, et al, 2008). The interviews were conducted in English with the five business analysts of the trading company studied. Two of these analysts were founders of the company and all five are, at present, owners as well as analysts. The profile of the analysts, as well as the number and duration of interviews conducted with each is specified in Table 3.

[INSERT TABLE 3 ABOUT HERE]

The technique of content analysis was used to analyze and interpret the data collected, following Miles and Huberman (1994) and served to identify the drivers of strategy and factors of success during the firm's evolution. Interviewees were asked to respond to questions with respect to events that occurred over a considerable period of time. In order to minimize the potential for loss or distortion of memory over this time period, more than one person was interviewed with respect to the facts of interest and their answers were compared. In addition, interview answers were triangulated with the results of the document analysis carried out of documents from the entire time period of interest. After these triangulating procedures were used, reinterviews were conducted to clarify the occasional discrepancy encountered.

RESULTS AND DISCUSSION

Findings with respect to the trajectory of the trading company over time, the drivers of it strategic choices and the determinants of its continuing survival and success are detailed below.

History and evolution of the company and its business. The firm was founded in 1986 in the Netherlands. The principal events in its historical trajectory are summarized in Figure 3. Initial operations involved the commercialization of Dutch flowers and cheeses to other Western European countries, notably France, Italy and Germany. At this stage in its development, the trading company acted as middleman, buying the products in its country of origin and reselling them to buyers in the other countries mentioned.

[INSERT FIGURE 3 ABOUT HERE]

After less than six months of operation, the company withdrew from the cheese trade, operating exclusively in the flower sector. According to interviewees, the first strategic challenge faced by the firm was its positioning in the market. The cheese and flower sectors, in their view, were passing through a restructuring or consolidation movement, characterized by the vertical integration of large supplier and buyer companies in Western Europe. The strategy chosen to deal with this situation was to withdraw from the cheese sector and concentrate on the less competitive segments of the flower market, on tropical flowers, specifically. The intention with this choice of positioning was to enter in a segment in which the firm could provide products differentiated from those found in Western European markets at the time. This meant looking for new suppliers outside of Holland.

With its existing knowledge of retail customers in the flower business and identifying opportunities in the niche of tropical flowers, the firm began to search out and select new suppliers with product availability. Within a short time, suppliers were found in three African and two Central American countries, a total of eleven small and medium-sized producers of tropical flowers meeting the requirements of the trading company.

At this initial stage in its history, it is clear that factors emphasized the industrial organization approach (Porter, 1980) - the bargaining power of suppliers and buyers, and competitive pressures - drove firm strategy. Interview content only begins to reveal themes related to institutional conditions with the beginning of negotiations and transactions with non-European suppliers.

From the institutional perspective, the main difficulty encountered by the trading company at this point concerned the formal criteria of institutional regulation, i.e., different laws and regulations than those of the countries the firm was used to dealing with. As a way to avoid what one respondent called "many misunderstandings", local partners were sought out in an attempt to reduce the problems caused by institutional asymmetry promote greater fluidity in the flow of commerce.

It was at this point in the discussion of the firm’s trajectory that the theme of resources and capabilities is first mentioned. Interview content begins to evidence the development of organizational resources and capabilities necessary to meet the strategic demands imposed by conducting business in institutional environments different than those of Western Europe. The development of knowledge about how to deal with different institutional contexts is pointed to by respondents as being of fundamental importance and as underlying the decision to initiate operations with new products, also from the agricultural sector, involving different suppliers but from the same African and Central American countries where they were already operating.

With the possibility of delivering new products, a retail firm with which the trading company already had a transaction history presented it with a new business opportunity. This client firm, located in the United Kingdom, had subsidiaries located in Portugal, Spain and Ireland. As a result of this pre-existing tie, the trading company entered these new markets, using its existing network to supply its new products to the subsidiaries of its client. This, in turn, spurred the development of tacit knowledge about these new markets.

The importance of its supplier-client network at this point becomes very evident in the respondents’ discourse, very much in line with the Johanson and Vahlne’s views on the importance of this kind of relationship for entre in new markets (2009), and corroborating the lines of evolution suggested by Håkansson and Snehota (1995).

Between the years 1996 and 2001, new suppliers were sought out on the basis of information about potential business opportunities provided by the existing client base in Western Europe, evidencing its ability to capture and make use of knowledge from its network. During this period, further capabilities were added due to the acquisition of two other trading companies with operations in South American and Eastern European markets.

This diversification of countries of operation occurred during a period of international expansion by retailers and even manufacturers from a variety of different countries described by Ellis (2001) and evidenced, also, in our study. In this way, as part of a general market trend in which buyers from emerging countries were coming into the market, this trading company began to acquire clients in emerging economies, when until this time, although it had suppliers from developing countries, its clients had all been from developed countries. It was at this point that opportunities arose for triangular transactions between emerging economies. Exploring these opportunities, according to those interviewed, was only possible because of the accumulation of knowledge acquired through the years of experience with transactions carried out with retail customers and suppliers, similarly to the experiences described by Lages and Montgomery (2004).

As pointed out by Dunning and Lundan (2008), firm entry into emerging markets, and even by experienced multinational enterprises, may present problems. Our interviewees commented that their trading company perceived that retailers in the process of international expansion into emerging economies were encountering difficulties, especially with regard to the type of institutional factors pointed out by Peng et al. (2008) and Aidis and Adachi (2007). This perception was fundamental to the strategic decision taken to begin brokering trading operations on a commissioned basis. It was at this point that this trading company began to involve itself in both types of triadic relationship described by Havila et al. (2004).

Also contributing to the decision to act as commissioner, according to one of the interviewees, was the fact that the values and volumes traded between emerging markets were extremely high, as few firms were operating in this kind of trading situation. There was market demand for this kind of trade, reflected in the high values involved, but incompatible with this firm's capital at that time. In other words, it was a high risk opportunity.

Nonetheless, the increase in the volume of transactions was so great that spurred the trading company to open five business centers (BC), South America, the Middle East, Eastern Europe, Hong Kong and Africa, respectively. According to our interviewees, these BC were intended to facilitate and increase the interaction of information between the buyer and supplier portfolios of the firm, to support closer institutional relationships with respect to import and export operations, and to retain key human resources, resources explicitly recognized by those interviewed as the holders of tacit knowledge developed by the firm over the years.

At the time of the interviews, the firm had closed its Hong Kong BC. The explanation given for this was the insufficient scale of business, joined with (and perhaps resulting from) the lack of success in establishing the kind of institutional (formal and/or informal) relationships necessary to sustain business relationships in this market, along the lines described by Peng and Zhou (2005).

The trading company has five analysts who travel continuously among the BC, eleven consultants responsible for prospecting new buyers and suppliers and maintaining and developing relationships with those already existing. The consultants, unlike the analysts, remain in the BC for which they were employed. The BC having fewer consultants is that responsible for the Middle East, with two. The others all have three. In addition, there are twenty operators responsible for carrying out the operations required for commercial transactions, approximately five located permanently at each BC.

As mentioned, the firm at present deals primarily with business between emerging markets, operating in 32 countries - with Brazil, Argentina, Russia, South Africa, Venezuela, Nigeria, Iran and the United Arab Emirates responsible for a large share of transactions - and 27 products, especially beef and lamb, wheat, wood, sugar, potatoes and apples.

After this brief description of the trading company and its evolution, we turn to a discussion of the strategic drivers and determinants of its success in the light of the three theoretical approaches discussed above.

Industrial competitiveness. The need for competitiveness in the sector of interest was observed to be the initial driver. It was in this category that the need for strategic decision-making and a change of strategy was first perceived by company owners. The withdrawal from the cheese sector and re-orientation, within the flower sector, to the segment of tropical flowers involved prospecting for suppliers in other regions of the globe of products was driven by pressure from competitors. Both respondents who were owners of the company from the beginning affirmed that the fact that they did not initially perceive the players competing with them for the same market was a nearly fatal mistake, a "myopia" could have bankrupted the firm in its first year.

Respondents believe that the advantages and facilities for operating in less structured sectors derive, in general, from : i) greater financial gains, ii) less pressure from competitors and iii) fewer demands on the part of suppliers and buyers, factors also noted by Thomé, Vieira and Santos (2012). The study data show that the firm went through successive cycles of prospection and acquisition of new suppliers and buyers, fueled by this perception..

Given to the nature of trading company business, industry structure is of great importance; and it can be observed that, throughout its history, the strategy of the firm has consistently shown characteristics consistent with the drivers suggested by the industrial competitiveness approach. Strategic choices have responded to industry conditions that offer or curtail business opportunities, and instigation the use of a variety of strategies, as summarized in Table 4.

[INSERT TABLE 4 ABOUT HERE]

Strategic attention to the drivers "Gains in Scope and Scale" are evidence of the fact that firm executives are well aware of the competitive pressures they faced when they decided to position the firm as an important player in trade between emerging markets. Respondents are unanimous in this regard, affirming that "it was necessary to grow our operations" and to give more structure to the business. This perception gave rise to a strong movement to diversify (products, suppliers, buyers and functions), along the lines noted by Ellis (2001), to amplify the number of transactions (with agents with whom the firm had a previous transaction history and by acquisition of other trading companies), and to establish "business centers" in key regions.

The drivers shown in Figure 2, are mainly related to pressure from suppliers, customers and competitors as well as economies of scale and scope. These drivers can be explained by the market structure in which the trading company confronted and were translated into firm strategies used in an attempt to survive and succeed.

Firm-specific resources and capabilities. Firm-specific resources and capabilities, or lack thereof, also proved to drive strategy and contribute to the success of the trading company studied, as summarized in Table 5.

[INSERT TABLE 5 ABOUT HERE]

As mentioned, the topic of resources and capabilities only began to appear in the interviews at the point in narrative in which the trading company initiated activities in Central American and African countries, prospecting new suppliers for European buyers. During the firm's evolution, a number of changes of strategy associated with drivers postulated by the resource-based view can be identified, usually in response to environmental threats or opportunities. In order to remain competitive, the firm on various occasions had to rethink its strategic objectives, using emerging strategies to meet new demands and doing this by developing new resources and capabilities or calling upon those previously developed. Among the capabilities developed or called upon for ensuring continued competitiveness and the perpetuation of the business, were that of being able to cope with environments characterized by institutional transitions and that of brokering transactions in emerging markets.

Tacit knowledge and social capital/network, mentioned by Dyer and Singh (1998), Håkansson and Snehota (1995), Johanson and Vahlne (2009), and Peng (2001), were well-evidenced in the discourse of those interviewed and can be characterized as competitive resources used in managing the business. These resources have been consolidated and used for developing and maintaining competitiveness throughout the firm's trajectory, enabling its survival and expansion. Every movement (entry/exit/expansion/retraction) of activities and operations in international markets included some particularity of the level of the technical or relational knowledge of analysts, consultants and operators.

There is evidence of development over time of a dynamic capability by the firm, in which further evolution of a capability can be seen to have been conditioned by learning acquired previously during the firm's trajectory as it responded to the organizational challenges faced in the competitive environment of international business. In short, the firm has learned how to learn and how to change, and this process of learning and changing clearly illustrate how path dependence has produced expertise in a given business, as suggested in Fung, et al. (2007). Resources and capabilities produced in this way are difficult for competitors to imitate and can be a source of competitive advantage, as maintained by Peng (2001).

Two episodes related in the interviews clearly reveal the role played by capabilities in competitive advantage. The first of these was the retreat of the firm from the cheese market soon after its founding in 1986. This decision, according to respondents, was prompted by the superior capabilities of competitors in that industry that left the company at a disadvantage. The second has to do with the economies of scale gained by the firm as a result of its network of retail clients who were internationalizing and required supply services in their new geographic locations. This, in turn, required expansion of the services of the company studied to the subsidiaries established by their client. In this episode, relational capability resulted in what Johanson and Vahlne (2009) have called market to market expansion, using their client's business network.

Finally, those interviewed emphasized the importance to the firm of the relational and technical tacit knowledge held by analysts, consultants and operators. In recognition of this, company policies explicitly seek to train and retain employees in order to avoid loss of this knowledge.

Institutional conditions and transitions. With the first change of suppliers (from Dutch to Central American and African), the firm encountered for the first time the difficulties of dealing with institutional differences. The most immediately noticeable differences were in formal institutional framework, involving the laws, rules and regulations for formalizing the transaction (contract attributes) and those governing the act of exporting.

Overall, formal institutions can be seen as an important aspect of the trading company business, often establishing technical barriers to international trade in agricultural products, as described by Henson and Loader (2001), and thus molding both strategy and operations. These norms often have the effect of prohibiting or limiting the entrance in a given market of some of the products traded by the firm, with obvious adverse effects on firm strategy. An example would be rules of the European Union with respect to the entrance of beef *in natura,* which denied market access to fresh Brazilian beef, previously transacted with customers in Western Europe.

Formal institutions were classified by respondents as being of two types - immutable and flexible - influencing the types of knowledge and capabilities required for interacting with them. Their classification corresponds roughly to what North (1990) considers as formal and informal institutions and Scott (1995) classifies as the coercive, normative and cognitive dimensions of institutions. Classified as immutable (formal, coercive) are fixed laws applied across-the-board impersonally and not susceptible to the influence of actions carried out by the trading company. An example of this is the surcharge applied by Argentina on “X %” the value of the Brazilian raw cane sugar which enters in Argentina. Classified as flexible (informal, normative-cognitive) are processes related to export or import that can be influenced by actions taken by the trading company. An example given was the emission of licenses for importing Argentine wheat into Brazil. Obtaining these licenses can normally take several days; but through its informal contacts the trading company can obtain them in only three hours. In other words, the situation is influenced by the organizational capability to understand and work through informal relationships.

This type of situation, discussed by Peng and Luo (2000) and characterized by them as a micro-macro link, is considered normal in emerging economies (Peng, 2003). This kind of micro-macro link involves a variable at the micro-level of analysis (interpersonal relationships) which has an impact on results at a more macro-level of analysis (organizational strategy and performance).

According to respondents, the informal (North, 1990) or normative and cognitive dimensions (Scott, 1995) play an equal and possibly even more important role than the formal or coercive dimensions. This is seen as occurring because the limits to action and performance established by informal institutions are not explicit. It is not always clear what is and is not permissible or possible. Even when this is clear, informal institutions, in the broadest sense of North (1990), can pose complications for the interconnections made by the trading company. An example is their retail customers in Iran who demand that the Brazilian beef and Argentine lamb they buy be slaughtered by Muslims and in accordance with the precepts of their religion. Another is the case of interest groups whose control over determined business activities is informal but very real. It was the difficulties encountered in dealing with such informal institutions, relatively common in emerging economies, which led to the firm closing its BC in Hong Kong.

However, when the firm can, with its resources and capabilities, manage the interfaces with the informal institutions and the competitive environment, the closeness developed with counterparts results in ties that are difficult to break. The evidence of the study shows that the relationships developed by the trading company are not limited to economic agents. Driven by the institutional demands, formal and informal, that permeate and mold the business environment in emerging economies, a wider range of relationships is required, providing practical examples, summarized in Table 6, of how the interaction of firm resources and capabilities with institutional factors postulated by Oliver (1997) functions. The data provide persuasive evidence that the while institutions clearly have the power to influence business strategy and operations, the firm has the power to select and modify its business environment, including its institutional environment, as well.

[INSERT FIGURE 6 ABOUT HERE]

CONCLUSIONS

It is not possible to point to one single strategic driver among those described by Peng et al. (2008), as responsible for the strategy of the trading company we studied. What we observed was the use over time of a variety of strategies based at times on industrial competitiveness, at times on firm resources and capabilities, at times on institutional conditions, and often on a combination of these factors. In the same way, it is not possible to point to any linear chronological order among the drivers, nor was obsolescence of any driver observed. On the contrary, findings suggest that changes in the characteristics of organizational resources and capabilities or of competitive or institutional environments demand review of strategies and possible re-thinking of strategic objectives. The capability to manage the interfaces between internal resources and capabilities and the demands posed by industrial competitiveness and institutional conditions and the capability to carry out strategic redefinitions when necessary are identified as the determinants of success for the trading company studied.

We conclude that attention to the full triadic range of trading company activities provides fuller comprehension of the role of trading companies in international trade. Our study contributes to understanding trading company activity as something other than passive contribution to the international strategies of other firms. Rather, they can appropriately be seen as firms actively pursuing their own strategic objectives and strategies.

We also conclude that the inclusion of attention to institutional factors discussed by North (1990) and Scott (1995), as proposed by Peng et al. (2008), permits fuller understanding of the business environment and strategic behavior of the trading company studied, particularly after it began working with suppliers from emerging countries and offers insights for further studies. Suggestions for future studies center on the importance of understanding how organizational characteristics and characteristics of the competitive and institutional environments interact in emerging economies to create opportunities for competitive advantage. The results draw significant attention to i) the intellectual capital and specific knowledge management used by the firm in the case studied to reduce the impact of institutional distance between suppliers and buyers from different countries, ii) the importance of the capability to manage the interfaces between internal resources and capabilities and the demands posed by the conditions of industrial competitiveness and institutional conditions, iii) the importance of the capability to carry out strategic redefinitions when necessary, and iv) how the firm studied sought to increase the scale and scope of its operations in order to withstand pressure from clients, suppliers and competitors. It is of considerable research interest whether similar results can be observed in other industries and other contexts, including those not involving emerging markets, as a means of broadening and deepening understanding the strategy tripod and how it affects performance.

From a pragmatic, managerially-oriented perspective, our findings show the importance of constant attention to all three legs of the tripod. While one may have predominated in a determined period of time, the longitudinal perspective revealed that all were important, sometimes individually, sometimes in conjunction, and that none can be ignored or neglected.

Finally, it is important to observe that the method used does not allow for generalization to the total universe of trading companies that operate among emerging economies or to other types of firms operating in emerging economies, thus restricting the conclusions to the case studied. Similar studies with other types of organizations and other sectors are necessary. It is our hope that this study will encourage not only the discussion of strategy and operations of trading companies, in general and in emerging economies, but that it will encourage further investigation of business strategy in emerging economies - not just of multinational firms but of the domestic firms of those economies, as well.

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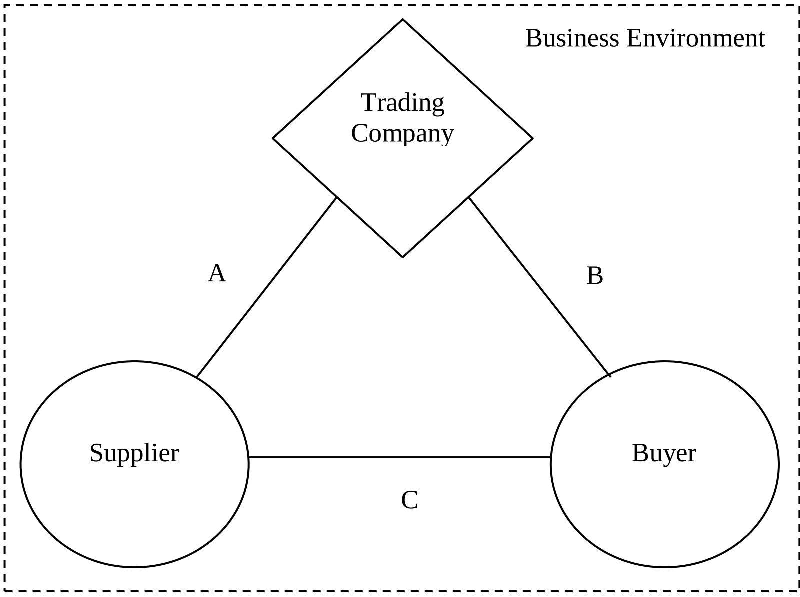
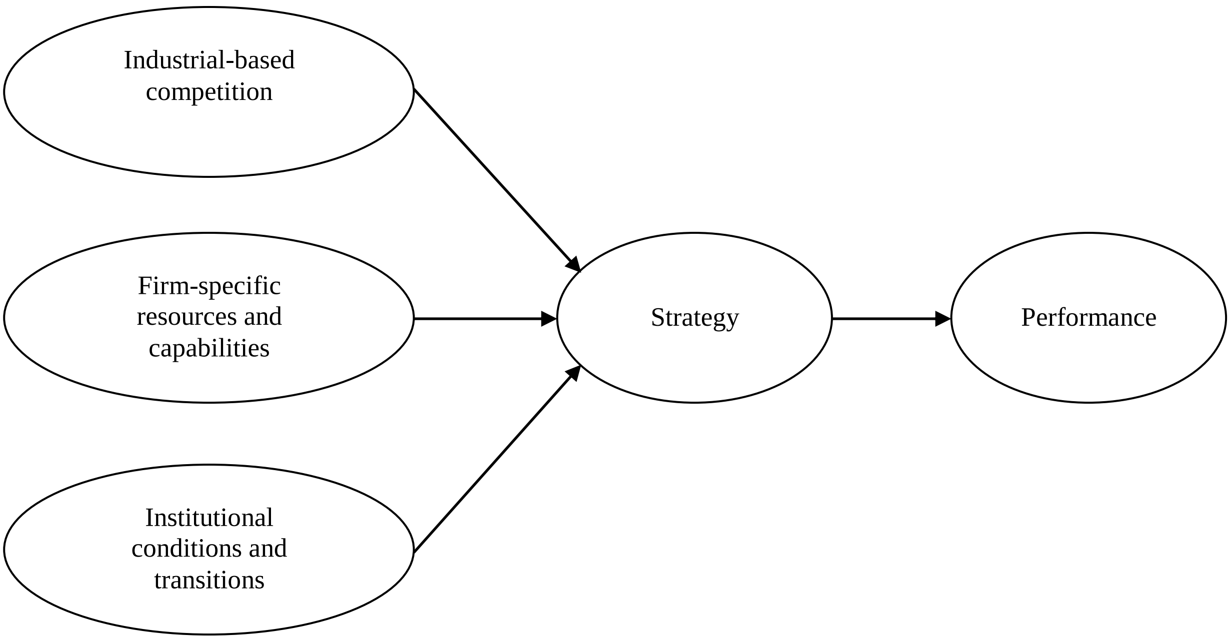
Figure 1 – Triad Structure



Source: Adapted from Fung, et al. (2007) and Havila, et al. (2004).

Figure 2: Strategy tripod.



Source: Peng, et al. (2008, p.923).

Figure 3: Business evolution by five-year period

1986	1991	1996	2001	2006	2011
Initiation of activities in flower and cheese trade. Withdrawal from the cheese trade and concentrations on the flower sector. Acquires new suppliers in Africa and Central America.	Beginning of operations with new agricultural products, with suppliers from the same supplier countries. Acquires new buyers in Western Europe.	Conquest of new suppliers in South America and Eastern Europe. Expansion via acquisition. Entry in the meat sector. Creation of business centers in key countries.	Initiates transactions between customers and suppliers in emerging economies. Beginning of commercial operations with customers in the Middle East.	Entry into the Asian market. Increase in transactions involving emerging economies. Withdrawal from the flower sector.	Withdrawal from the Asian market. Concentration of trade in emerging economies. Presently has four business centers and 36 people directly involved.

Source: Elaborated by Authors.

Table 1 – Institutional dimensions and variables

Dimensions (North, 1990)	Dimensions (Scott, 1995)	Operationalization (variables)
Formal	Coercive	Formal rules Laws Regulations
Informal	Normative	Group norms Cultural values
	Cognitive	Ethnicity Religion Education

Source: Adapted from North (1990) e Scott (1995).

Table 2 – Research steps

1st Step	Document analysis and non-participant observation	The document analysis involved content analysis of approximately six thousand purchase and sales contracts of the trading company studied and semester reports of the company beginning in the period in which the business centers outside of the Netherlands were established, with the objective of a) identifying transactions, products traded and centers of origin of buyers and suppliers, b) familiarizing the researchers with the activities performed by the firm and c) informing the formulation of the interview script. The non-participant observation took place during the period in which these documents were being reviewed and analyzed and focused on transactions, relationships with supplier and buyer firms, and institutional relationships.
2nd Step	In-depth interviews	The in-depth interviews had as their theoretical basis the strategy tripod (Peng, et al., 2008) and explored the business conducted by the trading company, motives and reasons for choice of products and transactions with suppliers/customers observed during document analysis, and the organizational strategies used to carry out these transactions. In this first round of interviews, three analysts were interviewed personally in Brazil and two in Russia.
3rd Step	Content analysis of the first round of interviews	Content analysis of the above-mentioned interviews was carried out in which the motives and reasons for choice of products and transactions with suppliers/customers were identified and grouped into categories and subcategories based on the strategy tripod.
4th Step	Triangulation of data from the different data sources	Data collected from the document analysis, non-participant observation and the first round of interviews were triangulated.
5th Step	Second round of interviews	The fifth step, consisting of a second round of interviews with the same respondents interviewed in the 2nd step was conducted via Voice over Internet Protocol (VoIP). These interviews were used to explore in greater depth elements with respect to which the content analysis revealed inconsistencies or divergence among the respondents, to permit researchers to test their understanding of information provided in the first round of interviews, and to actively seek evidence that might force the researchers to reexamine initial interpretations or preferred explanations of the data. Information probed in this round of interviews dealt with motives and reasons for product choice and organizational strategies. This second round of interviews had the intention of contributing to the quality of research results, using the techniques of feedback and negative case analysis and contributing to the use of he technique of triangulation.
6th step	Triangulation of data from the different data sources	In this step, data collected from the document analysis, non-participant observation and the two rounds of interviews were triangulated.

Source: Elaborated by Authors.

Table 3 – Profiles of analysts/owners interviewed

	Analyst A	Analyst B	Analyst C	Analyst D	Analyst E
Age (years)	62	55	52	40	43
Years of employment in the firm	25	25	23	11	10
Length of in-depth interview (2nd step of the research)	2h and 35m	2h and 15m	1h and 30m	1h and 55m	1h and 40m
Length of 2nd interview (5th step of the research)	30m	25m	30m	25m	25m

Source: Elaborated by Authors.

Table 4 – Industrial structure and competitiveness

Driver	Organizational strategy	Year
Pressures from clients, suppliers, competitors	Withdrawal from the cheese sector and re-orientation, within the flower sector, to the segment of tropical flowers.	1986
	Redirection of operations involving prospecting in other regions of the globe for suppliers of products	1986
	Prospection and acquisition of new suppliers	1986, 1988-1990, 1991-1994, 1996-2002
	Prospection and acquisition of new buyers	1990-1992, 1999-2002, 2006
	Withdrawal from the Asian market and concentration on remaining business centers	2010
Gains in scope	Diversification of products, geographic diversification of buyers and suppliers	1986, 1987, 1990
	Diversification of function (form of relating to clients and suppliers)	2002
	Geographic diversification (clients): inclusion of Middle-Eastern and Asian markets.	2001, 2007
Gains in scale	Amplification of transactions with agents with whom the firm had a previous transaction history	1997, 2003, 2007, 2010
	Acquisition of other trading companies	1998

Source: Elaborated by Authors.

Table 5 – Firm-specific resources and capabilities

Driver	Firm Strategy	Year
Physical Resources and Capabilities	Creation of regional Business Centers in key locations to interact more closely with suppliers, buyers and institutional contexts	1997
	Acquisition of equipment, with emphasis on equipment facilitating communication with trading partners and with and among Business Centers	1987, 1997, 2001, 2006
Human and Organizational Resources and Capabilities	Expansion and diversification of supplier portfolio	1986, 1988-1990, 1991-1994, 1996-2002
	Expansion and diversification of client portfolio	1990-1992, 1999-2002, 2006
	Intensification of relations with retail clients and specific suppliers	1992-1996, 2002-present
	Entrance in new national markets via existing client relationships	1992, 1994, 1997, 2001-2003
	Creation of tacit knowledge by experimentation in new markets	1986, 1989-1992, 1996-2000, 2006
	Exploration of tacit knowledge by entrance in similar new markets; creation of new tacit knowledge	1988-1992, 1996-2000
	Acquisition of capabilities and tacit knowledge as result of acquisition of other trading companies	1998
	Local knowledge of Business Center personnel (specialization)	1997-present
	Constant visits of HQ analysts to BCs to that serve to disseminate information and organizational culture (integration)	1997-present
	Policies to train and retain employees	1997-present

Source: Elaborated by Authors.

Table 6 – Institutional Conditions and Transitions

Drivers	Firm Strategy	Year
Institutional Differences	Employment of local people	1986, 1988, 1997-present
	Recognition of and differentiation between immutable and flexible institutions	1988-present
	Prospection and acquisition of suppliers capable of meeting the institutional requirements for trading their products in specific markets of interest	1991-1994, 1996-2002
	Opening of regional Business Centers	1997
Institutional Barriers	Withdrawal from trading determined products in countries where barriers to those products are insurmountable	1996, 2001, 2002
	Prospection and acquisition of suppliers capable of meeting the institutional requirements for trading their products in specific markets of interest	1991-1994, 1996-2002
Institutional Pressures	Construction of ample networks of relations in the countries where they operate, networks that include non-economic agents	1991-present
	Closing of the Hong Kong Business Center	2010

Source: Elaborated by Authors.