

Country-of-Origin Effect and International Market Expansion of an entrepreneurial luxury small firm

Abstract

Based on a qualitative study, this article aims to expand the understanding of COO effect and niche market strategy by describing the internationalization of Ligne St. Barth, a St. Barths luxury cosmetics company. In our case study, we found that Ligne's success as an INV is largely due to Founders' competencies and know-how to acquire resources and capitalize from the brand's COO effect, as well as their product differentiation and niche marketing strategies that focus on specialization and quality. As Ligne's is a special case, this study's findings are not generalizable; nevertheless, they may guide other small island firms seeking to exploit international opportunities from inception.

Keywords: Ligne St. Barth, COO effect, niche strategies

1. Introduction

Country-of-origin (COO) effect has received little attention from the perspective of internationalization strategy of small and medium sized firms (SMEs). The majority of the studies approaches the concept from the marketing consumer behavior perspective and strategy when analyzing worldwide Multinational's merger and acquisitions (M&A) activities (sources). However, COO has been largely used by countries as commercial policy to encourage the development of industries such as tourism, entertainment, and food and beverages. The leading positioning of renowned Multinationals such as Nestle, Bacardi, among others is largely explain by the use of COO effect in their marketing strategies.

Based on a qualitative study, this article aims to expand the understanding of COO effect and niche market strategy by describing the internationalization of Ligne St. Barth, a St. Barths¹ luxury cosmetics company ("Ligne" or the "Company" or the "Firm").

Ligne has been constantly focused on its target market and philosophy without

compromising product quality and directly competing with other international cosmetic firms, such as Obagi Medical Products, Inc., Lendan, Sosthys, Bio Juvance, Rosa Graf, Casmara, Sesderma, and Éminence. After reviewing academic journals, we did not find any Company research or case analysis, or registration with any regional commerce association. Ligne was mentioned in a single academic source, a book chapter that discusses the Firm in the context of entrepreneurship in small islands territories (Orengo-Serra & Shopheap, 2015). We only found very limited information about trials and errors of its business.

As a privately held company, Ligne is not listed under any stock exchange and is not required to provide information. The fact that Ligne belongs to the luxury cosmetics industry, serving a narrow niche market, could explain why we only found limited information about the Company. An alternate explanation is that being part of such a competitive industry, the Company highly protects its information so as to not reveal trade secrets and processes. An article stated, for instance, that there have been several attempts to infiltrate Ligne's manufacturing facilities and planting fields (Gottlieb, 2004).

This article is structured as follows. The following section presents a Company overview, describing the context wherein Ligne's management developed strategies to establish strong brand awareness in a particular niche market worldwide. This section discusses its founders' commitment with the market, social and professional relationships, and prior experience as main components of the Firm's entrepreneurship style. Section Three describes our methodology. Section 4 presents our findings, which are centered on a discussion of the country-of-origin ("COO") effect in Ligne's branding and niche strategies. Section Five concludes, suggesting new factors to consider regarding International new ventures' (INV) long-term exploitation of international opportunities.

2. Ligne St. Barth's History and General Scope

St. Barths has not always been considered a luxury destination. The Overseas Collectivity of Saint Barthélemy official visitors' webpage states that the island begun its

transformation into an upscale destination in 1957, when American millionaire David Rockefeller bought a property thereⁱⁱ By the end of the 1950s, St. Barths developed luxury tourism as its main economic activity (Cousin & Chauvin, 2012). Currently, St. Barths has a population of 800,000, and is a rich micro-cosmos created by foreign billionaire investors during the 60s that is politically and economically linked to France, an industrialized country. St. Barths is a small island territory with limited and poor marine and aerial infrastructure, which are factors that sustain the island's sense of exclusivity as no mayor airlines or cruise companies operate there. This perception as a luxury destination is central to Ligne's brand via the maximization of St. Barths' positive COO effect.

Ligne's founders drove the Firm's accelerated entry into a niche, high-end cosmetic market by establishing Ligne St. Barth as a luxury brand anchored on its COO effect. Known as the new St. Tropez of France in the Caribbean, St. Baths' residents and visitors include artists, entrepreneurs, millionaires and business tycoons, such as Bill Gates, Paul Allen (Microsoft founders), Larry Ellison (Oracle founder), Roman Abramovich, David Letterman, Steven Spielberg, Jerry Bruckheimer, Sean Combs, George Michael, Uma Thurman, John Travolta and Brad Pitt (McDonogh, 1999; Cousin & Chauvin, 2012). Visitors expect to find high-quality, limited-edition handmade products that are unique to that geographical area. St. Barths' location allows St. Barths-based firms to differentiate and diversify in health-related tourism and hydrotherapy products. The advantage of being located on a Caribbean island allows Ligne to overcome natural barriers of single island isolation, appealing to a regional brand that enjoys worldwide recognition (Crusol & Vellas, 1996)

In addition to the COO effect, Ligne's business owners' acquisition, management and transformation of knowledge into innovation characterizes the Firm's entrepreneurship style, uniquely meshing technology with Caribbean traditions. The Firm's transformation of resources, including raw materials, information, social networks, family heritage, COO effect,

and experience in related sectors into business-oriented assets manifests the magnitude of the Company's knowledge and innovation (Orengo-Serra & Shopheap, 2015).

Ligne's internationalization does not follow a traditional path as other small and medium-sized enterprises ("SMEs"). According to Kuivalainen, Sundqvist, Saarenketo, and McNaughton (2012), SMEs usually internationalize by expanding to nearby markets. Generally, the early internationalization process centers on low-involvement entry modes into culturally similar areas (Johanson & Vahlne, 2009). In expanding, SMEs seek out innovation, international entrepreneurship attitudes and networks. Innovation is important to subsist in foreign markets, wherein firms face intense competition (Sui & Baum, 2014).

2.1 Firm profile

Ligne is a small, family-owned manufacturing business focused on highly specialized professional beauty products. The Firm is quite unique in its class, mainly because it is based in an open island economy with a small population and very limited natural resources. The Company departs from most small island firms by focusing on service provision, by first becoming a manufacturing niche micro-firm or and later an INV within a few years of inception.

Ligne's international success is linked to the knowledge and entrepreneurial proactiveness of its founders: Hervé Brin, a chemical engineer ("Mr. Brin"), and his wife Birgit Grein, emigrated to St. Barths to work in its hospitality industry in 1984 ("Mrs. Brin," and together with Mr. Brin, the "Founders"), a year after the Firm was established. Descendants of the Arawak Indians, the Brins family built the Company by merging their ancestors' knowledge on Caribbean flowers and fruits with the latest production technologies, achieving original and high-quality products. In addition, at the core of the Firm's marketing strategy is maximizing the COO effect by incorporating "St. Barth" into the Company name.

The Firm began its internationalization process in 1988 by establishing an export branch in United States. To ensure international success, the Firm constantly innovates

the use of traditional Caribbean fruits and plants, and developing handcrafted, organic eco-products. The Firm then expanded its product line to facilitate its international expansion. Naomi Campbell, Kate Moss, Céline Dion, Jack Nicholson and Don Johnson are among the celebrities that have become Ligne's spokespeople, marketing Ligne as luxury brand and becoming brand ambassadors their home countries.

After 1988, the increasing demand in Europe for Ligne's products allowed for further foreign expansion. In 1993, the Firm established a subsidiary of distribution in Munich, Germany, and in 1995, Switzerland and Austria were included as countries in which Ligne's brand was distributed. In 2004, Ligne registered 17 salespersons working in the headquarters located at the Euro-industrial Park designated to the Firm's European market, and 12 more working on the island. In 2011, a team of 32 persons constituted the company workforce.

Ligne's Founders had previous experience in two complementary sectors: high-end tourism and cosmetics. Mr. Brin's background explains Ligne's achievement of combining inherited knowledge in tropical plants and phytotherapy with modern low-scale manufacturing technology, resulting in high-quality beauty products. Managers control over the entire production process, from planting, to harvesting, to manufacturing.

In 1998, the Firm diversified its business portfolio via *St. Barth Treatments by Ligne St. Barth* ("St. Barth Treatments"), a consulting service that developed partnerships with luxury villas and exclusive hotels. *St. Barth Treatments* aids in designing and establishing spas, as well as implementing a marketing strategy, supporting recruitment and training, and providing ongoing advice. Via this business strategy, the Firm maximized its COO effect without lowering its price point.

During 2001 to 2007, Ligne experienced fast product portfolio expansion, adding a men's cosmetic line, perfumes, beach clothes, and accessories for spa treatments. In 2007,

the Company expanded to the mass media industry by launching *Spa & Travel by Ligne St. Barth* (“Spa & Travel”), a magazine dedicated to worldwide destinations for beauty and wellbeing.

Since then the Firm has immersed itself in research and development (“R&D”) of innovative and natural active ingredients, while receiving international awards and recognition from luxury firms (partners) and the media. In 2012, the Firm launched *Deep Sea Cream by Ligne St. Barth* (“Deep Sea”), a high-quality face cream, unique in its category not only for its active ingredients, but also for its luxury packaging and premium, being the costliest face-cream in its category (Base price €3,375 for 100ml; and €1,350 for 50ml Murano Octopus cream dispenser). The innovation behind the product is the story of two visionaries who spent ten years developing groundbreaking technology to create the first and the unique skin cream that replicates human epidermis. With Deep Sea, Ligne established its leadership in the international luxury beauty niche market.

2.2 Networks

Network relationships encourage new skill development, and acquisition and exploitation of knowledge that can be transformed into opportunities to develop market-specific knowledge (Coviello & Munro, 1995; 1997; Chetty & Campbell-Hunt, 2003; Coviello, 2006). Networking helps SMEs gain knowledge about foreign institutions, becoming aware of current rules and regulations, customs and practices, and integrating their products with similar global brands at minimal cost and error, while testing the global business environment (Senik, Scott-Ladd, Entekin & Adham, 2011).

Ligne’s accelerated international expansion is strongly linked to networks legitimated by the Firm’s well-structured niche and branding through the COO effect. This fact is consistent with the INV literature, as Ligne established competitive advantage by developing long-term intangible assets based on uniqueness, extensive experience in the international arena, network relationships, and knowledge management (McDougall et

al., 1994; Oviatt & McDougall, 1994; 1995).

Management's autonomy and network relationships with prestigious partners worldwide further fostered internationalization. Soon after inception, Ligne expanded to Europe's luxury cosmetics market by creating alliances in the hospitality industry. Ligne's rapid internationalization is largely due to Ligne's European manager, Peter Grein, Mrs. Brin's brother ("Mr. Grein"), who in 1993 was appointed CEO of Ligne's European Region, headquartered in Munich.

Ligne's network relationships also aided the Firm to innovate and create highly differentiated products. Ligne's innovation and high-quality control standards came about because of Mr. Brin's chemistry background, as well as the recruitment in 1992 of a scientist who worked as an expert and advisor to the French Ministry of Health.

Ligne's first strategic partnership was with with Lacure Inc., a specialized, worldwide luxury villa rental firm ("Lacure"). Lacure challenged Ligne to develop a spa via its St. Barth Treatment service line in Roaring Pavilion in Jamaica, a first-class a residence located in a private estate with its own beach, where Céline Dion, Jack Nicholson and Don Johnson had already been guests. Moreover, networks relationships allowed St. Barth Treatments to be established in the most exclusive five-star hotels, having a presence in Germany, Austria, Switzerland, Italy, Spain, Lithuania, Greece, Russia, Jamaica, and Saint Martin, among other countries.

3. Methodology

As opposed to quantitative methods aimed to find statistical correlations, case studies allow researchers to discover causal relationships, and understand underlying reasons for, and comprehensively and clearly describe phenomena in their natural context (Eisenhardt, 1989; Eisenhardt & Graebner, 2007), confronting theory with the empirical world (Piekkari et al., 2009). Case studies comprise design logic and data collection and analysis (Baxter & Jack, 2008). Although case studies have not been as widely employed in international

business research as have quantitative methods, this qualitative method has proved highly useful in understanding firms' internationalization process as well as testing, refuting, refining and/or generating new theories (Vissak, 2010) by combining existing theoretical knowledge with new empirical insights (Yin, 1994).

Case studies are an outstanding research tool when the sample base is too small to obtain generalizable statistical data. When the context or situation wherein the phenomena evolves is unique, critical, or extreme, due to its rich, contextual insights into the dynamics of phenomena a single case study may be "paradigm creating" or "paradigm challenging" (Yin, 1994, 2009; Piekkari, Welch & Paavilainen, 2009; Vissak, 2010).

As the context of our study is very specific and non-traditional, and our study area has not been heavily researched, we considered that case study was ideal to investigate Ligne's internationalization process. We gathered information on Ligne's business strategies from 102 secondary sources, including web documents and databases, primarily newspaper articles, press releases, video clips, blogs of Ligne's retailers, social networks (Facebook, Twitter), reports and book chapters on St. Barths, and advertising and promotion materials. Also, we reviewed literature regarding firms' internationalization paths to juxtapose with Ligne's.

4. Discussion and Results

4.1 The COO effect

Ligne's management takes avail of the COO effect, creating a sense of product value regarding design, workmanship and quality. The COO effect links the production country or company's reputation with consumer's perceived product attributes. Consumers use COO to reinforce, create and bias initial product perceptions, compelling them to pay a premium for products from certain countries. Consumers then modify these perceptions in accordance with their personal experience with the product.

In the cosmetics industry, particularly, in the high-end professional beauty products

segment, COO is a powerful niche marketing tool for SMEs. In fact, the COO effect is the most common branding strategy (Charters & Spielmann, 2013). However, many brands may suffer from adverse COO effect when the country of origin has a bad reputation, regardless of the production facility's quality standards (Charters et al., 2013). In Ligne's case, the COO effect is a powerful tool because of St. Barths' positive image of luxury and exclusivity.

To analyze the COO effect as a niche market strategy, particularly, we apply Aiello et al.'s (2009) approach to study COO and luxury brands. In that analysis, the authors established four possible classifications linking consumers' purchase decision of a brand and the COO effect: (1) when both the luxury brand importance and the COO effect are high, consumers purchase products mainly because of the brand per se and its clear national origin; (2) when the luxury brand importance is high and the COO effect is low, consumers purchase products mainly because of the brand; (3) when the luxury brand importance is low and the COO effect is high, consumers purchase products for the national component that incorporates the brand; and (4) when both the luxury brand importance and the COO effect low, consumers purchase products due to multiple factors, such as design, branding, price among others. In Ligne's case, customers identify with St. Barths' perceived luxury, which is embedded in the brand's name. In a synthesis study about COO research, Pharr (2005) pointed out that when COO is negative or weak, high price cues have no significant impact on product quality perceptions and, similarly, when price is low, strong positive COO information has no significant product quality effect. In light of this study, we consider luxury, high price and quality, as a possible COO moderators in the instant case. Ligne's high prices then could significantly impact product quality perceptions as the COO effect is considered strong and positive.

Paswan and Sharma (2004) stated that, in most societies, individuals have more

access to information, travel more often, and are exposed to other cultures, consequently they are more likely to be aware of multinational brands and their COO. This factor is important when analyzing Ligne's COO as the Firm targets upper-class customers.

Aichner (2014) studied COO effect where knowledge is still lacking, including products and services originating from nonindustrialized countries. Those areas include: typical COO words embedded in the company name, and use of COO language, famous or stereotypical individuals, flags and symbols, and/or typical landscapes or famous buildings. Those areas help understand how Ligne established its brand, which was rapidly legitimated by its stakeholders. As Ligne's COO is both strong and positive, it has been employed as a marketing strategy by embedding COO in the brand name.

Aichner (2014) also discussed the concept of stereotypes. A stereotype is individuals' belief of a social group (Brauer, Judd & Jacquelin, 2001; Costarelli & Callà, 2007). Respecting consumer behavior, stereotypes manifest where consumers' take into account brands' origin when evaluating products based on stereotypical beliefs of the COO (Schultz & Jain, 2015). According to Aichner (2014), stereotypes should be analyzed and used in companies' communication strategies by underlining the products COO or deliberately omitting it. In the instant case, Ligne's communication strategy clearly underlines its COO as a product from a luxury destination. Ligne's brand is built upon two pillars that derive from St. Barths: 1) the perception of Caribbean stereotypes and 2) luxury stereotypes. Caribbean stereotypes evoke imagery of the sun, sand and beach, whereas luxury stereotypes have been perpetuated by international investors that characterize St. Barths as an upscale destination.

4.2 Niche marketing strategy

Firms, particularly SMEs that pursue niche markets exhibit strong entrepreneurially oriented strategy, allowing managers to develop long-term relationships with suppliers, financiers, agents and customers. The term "niche market" refers to a small market segment

comprised of individual or small groups of customers with similar needs or characteristics (Dalgic & Leeuw, 1994). A niche marketing strategy aims to fulfill individual needs of consumers in small homogeneous groups previously ignored (Shani & Chalasani, 1992; Dalgic et al., 1994); SMEs adopt niche strategies not only for defensive reasons such as identifying protected markets, but also to proactively develop innovative capabilities and propel niche markets (Zucchella & Palamara, 2007). Because in niche markets competition is not price-based, oft-times no direct competitors exist and the SME structure is centralized (Zucchella & Palamara, 2007).

According to Zucchella and Palamara (2007), international SMEs applying niche marketing strategies have unique assets, aim at narrow global market segments and are strongly customer-oriented. In small open economies, firms face constraints when accessing resources. Due to the narrow market they serve, Caribbean SMEs typically employ niche marketing strategies as they lack the capacity to supply mass demand (Crusol & Vellas, 1996).

The professional high-end cosmetics market is a highly globalized, but small niche market, whereas the mass cosmetic market offers similar products at lower prices. Surviving in this niche market requires constant innovation. Ligne's internationalization encourages INVs based on Caribbean small islands to go after specialized niche markets by offering highly differentiated products, and acquiring and managing knowledge. This propensity for knowledge development is consistent with the strong presence of intellectual capital in island states and territories (Henry & Watkins, 2013).

In our case study, we found that Ligne's success as an INV is largely due to Founders' competencies and know-how to acquire resources and capitalize from the brand's COO effect, as well as their product differentiation and niche marketing strategies that focus on specialization and quality.

4.3 Ligne St. Barth's internationalization path in the INV context

COO effect and niche strategy based on offering highly differentiated products contextualize the Firm's ability to exploit opportunities and networks to expand its product portfolio and diversify its forms of internationalization (e.g., direct export to joint ventures and wholly owned subsidiaries). As Ligne shows, entrepreneurial-oriented firms willingly accept risk and intense competition, paving the way to processes, practices, and decision-making activities that lead to new foreign markets (Lumpkin & Dess, 1996). This finding is consistent with INV literature (McDougall, Shane & Oviatt, 1994; Oviatt & McDougall, 1994; 1995; Knight & Cavusgil, 2004). Coviello and Muhro (1994) stated that, even if without a perfect product, INVs aim to be first to target a market as timing is most crucial for success.

In line with Knight and Cavusgil (2004), Ligne followed a strong international entrepreneurial and marketing-oriented strategy. Since inception, Founders recognized and exploited international opportunity afforded by their competencies, knowledge and their brand's COO effect, and capitalized on St. Barths' exclusive raw materials to generate new marketable business ideas. In line with the INV literature, Ligne capitalized on value-added assets instead of capital assets and economies of scale, as it targeted a specialized market, where competition was quality- rather than price-based.

Zander, McDougall-Covin and Rose (2015) suggested that the motivation underlying internationalization as well as the process itself depends on firms' home context. Under this perspective, Ligne contributed to the literature by highlighting the internationalization process of a firm based in a small island territory that is politically and economically linked with a highly industrialized country, and that, although not belonging to a high-tech industry, its product portfolio exhibits high technological content. Ligne's case shows how INV can leverage competitive advantage from their COO effect. This strategy is a novel approach in INVs' marketing structure.

Ligne presents another perspective on INVs in terms of market structure and context, but follows the traditional internationalization pathway described in the INV literature. Ligne’s COO effect and niche marketing strategy offer us a new perspective for further study. Figure 1 resumes the elements driving Ligne’s internationalization process.

Figure 1: Ligne St. Barth’s Internationalization Process



Source: Author’s elaboration, 2016.

5. Conclusion

Ligne has concentrated on making its products synonymous with the upscale St. Barths’ lifestyle, keeping a tight branding control and placement, and developing luxury spa’s that maintain their image of luxury and exclusivity. Ligne’s family-run business and small network could also be another competitive edge, as well as the fact that its business partners are highly trained and knowledgeable.

Contributing to the INV literature, Ligne’s case stands out because the Firm’s brand is strongly linked to its COO effect. Moreover, Ligne’s early internationalization was largely due to its Founders ability to exploit international opportunity afforded by their brand’s COO effect, offering blockbuster line of products for both end-consumers and professionals. The Founders’ education, experience and entrepreneurial spirit allowed

Ligne to innovate and integrate domestic (suppliers or raw materials, such as Arawak's Indians community) and international partners (chemical engineers, strategic alliances with managers and owners in the hospitality industry, etc.), as well as intellectual capital in its new venture, fostering collaborative entrepreneurship.

Since St. Barths and Ligne's target related high-end niche markets: luxury destination and professional high-end cosmetics, respectively, Ligne's accelerated internationalization was largely due to its COO effect. This finding does not imply that Ligne could not have internationalized otherwise. For instance, Ligne could have internationalized by establishing strategic alliances with five-star spas and by manufacturing for other private labels.

6. Limitations and Future Research

As Ligne's is a special case, this study's findings are not generalizable. Nonetheless, they may guide other small island firms that seek to exploit international opportunities from inception. Future research may aim to juxtapose Ligne's internationalization with those of companies from similar origins. Another important factor that arises from this research Ligne's e-commerce. This aspect warrants deeper analysis, especially in the context of luxury firms, for whom the sense of exclusivity is instrumental to their success.

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ⁱ Officially the Territorial Collectivity of Saint-Barthélemy, St. Barths is an [overseas collectivity of France](#) located about 22 miles southeast of [St. Martin](#) and north of [St. Kitts](#).

ⁱⁱ <http://www.st-barths.com/en/home.html>