

The Role of Independent Intermediaries. The Case of Small and medium-Sized Exporters.

Abstract

The article examines how small and medium-sized exporters collaborate with intermediaries in foreign markets by studying the level of control, i.e. the delegation of decisions rights and task solution. It goes one step further than previous research, since it examines degrees of control and participation rather than just discrete types of intermediary modes (agents, importers, dealers, etc.). Associations with performance as well as the role of product and distributor characteristics are analyzed.

Empirical data based on a sample of product-market ventures in 227 small and medium-sized Norwegian export firms are analysed by a structural equation modelling approach. The article provides empirical evidence that managers keep control of decision making to an extent that may have a negative impact on export performance. The empirical study indicates that firms should participate more in task solution but less in decision making in their collaboration with foreign intermediaries.

Keywords: international marketing channels; independent intermediaries; export performance; internalization; governance

1. Introduction

The choice of operation modes in international business activities is one of the most important decisions to be made by exporters and has been discussed in the literature since the late 1970s (Johanson & Vahlne, 1977; Bilkey & Tesar, 1977; Anderson & Gatignon, 1986). Some authors have argued that control through vertical integration is impossible for many Small and Medium-Sized Enterprises (SMEs) because of high costs (e.g. Heide & John, 1992).

Exporting through independent intermediaries is therefore a widespread phenomenon in groups of firms. In recent literature on international marketing (e.g. Solberg & Nes, 2002; Pedersen, Petersen, & Benito, 2002; Rialp, Axinn, & Thach, 2002; Nguyen, Barrett, & Fletcher, 2006), studies have often focused on the choice among discrete types of intermediaries (agents, importers, dealers, etc.). In real life, such types are not unambiguous with regard to the exact degree of internalization. A domestic or foreign distributor may be granted many decision rights or few decision rights. An agent may be responsible for the solution of many or few marketing tasks. By focusing on discrete types of intermediaries, important governance aspects are often overlooked in the export literature.

The present study goes one step further by examining the degree of internalization, i.e. the level of control of the decision-making and the level of participation in task solutions, rather than just examining discrete types of channel members. We explore in depth the operation mode involving independent intermediaries whereas other operation modes such as direct exports and sales subsidiaries are not discussed. An important contribution of the paper is that it develops a theoretical framework for the examination of internalization as a matter of degree in the specific setting of exporters using independent intermediaries. This is a novel

approach in the export literature. In so doing the study integrates selected parts of the marketing channel literature with the literature on internationalization processes of firms.

Besides these theoretical aspects the paper tests a structural equation model examining the association between product characteristics, distributor quality, internalization in international marketing channels (degree of control and participation), and the performance of product-market ventures. We examine how the exporter delegates decision rights to independent intermediaries with regard to marketing decisions (such as price strategy and delivery conditions) and how the responsibility for solving marketing tasks is shared between the exporter and the intermediary (such as customer identification and communication). An empirical study among Norwegian exporters asks respondents for information about on-going export ventures. Therefore, the actual product and the intermediary/ distributor (these terms are used as synonyms throughout the rest of the paper) are preconditions for the firm's decisions about the degree of internalization in its international marketing channel. Different types of products may favour different degrees of control and participation, and we therefore include product characteristics (technological complexity) as a variable in the model. Furthermore, we investigate associations between firms' degree of internalization and the quality of their present distributor.

Previous studies of intermediaries have been focused on domestic export intermediaries (see for example Balabanis, 2000; Bello & Williamson, 1985; Peng et al., 2006). These studies only consider the involvement of intermediaries in the country of the exporter (i.e. US intermediaries used by US exporters). The present study goes one step further by considering also involvement of intermediaries located in the receiving country. One additional difference is that the studies mentioned above only examine whether an intermediary has been involved

or not, whereas the present study goes one step further by examining in detail how the intermediary has been involved in decision making and task solution.

The paper is organized as follows: Section 2 explains the theoretical background of the study and argues for the hypotheses that will be tested in the empirical study. After that, section 3 explains the methodology used, including sampling, data collection and measurement of constructs. The results of the empirical study are presented in section 4; section 5 is dealing with discussion and implications before section 6 offers some concluding remarks with emphasis on future research.

2. Theoretical background and development of hypotheses

2.1. Internalization theory

The purpose of international marketing channels is to supply the offerings of the seller to the end user in the right quantity and quality, in the right place, at the right time – and to deliver after-sales service as well as maintenance. For exporters using independent intermediaries this involves the delegation of decision rights and responsibility for the solution of different tasks related to logistics, sales, marketing, and service activities, i.e. the flows of physical possession, ownership, promotion, negotiation, financing, risking, ordering, and payment (Coughlan, Anderson, Stern, & El Ansary, 2001, p. 89) between the seller and the end user. Anderson & Gatignon (1986) provides an explicit focus on marketing channels from an economic point of view by examining effectiveness and efficiency in the process of delivering products and related services to customers. The channel should be governed so that it delivers the service output desired by the relevant market segments, and it should deliver a given output at a minimum of costs. Transaction Cost Analysis (TCA) offers a useful framework for

the examination of the best governance structure in export channels with regard to the degree of internalization of decision making and task solution.

Two distinct governance modes have been framed in the TCA-based literature (Heide, 1994; Anderson & Gatignon, 1986; Williamson, 1979). Internalization means that the decision right or the channel task is kept within the boundaries of the firm (high control mode) whereas externalisation implies delegation to external, independent organizations, and hence control through arms length (low control mode). As Peng et al. (2006) point out, the delegation of task solutions to export intermediaries represents a ‘buy’ in market entry decisions whereas in-house solutions equal the ‘make’ decision as framed by the TCA. Of relevance for this paper, TCA argues that high specificity of investments as well as high exchange complexity favour internalization. In the first case, externalization would place the exporter in a bad negotiation position due to possible hold-up, and in the second case high exchange complexity would lead to possible misunderstandings and loss of information if intermediaries are involved in the export channel (due to bounded rationality).

In the real world, however, the governance solution often lies in between complete internalization and externalization, i.e. the exporter makes decisions and solves tasks in some situations, but not in others – or issues are settled in collaboration with its intermediaries (Rialp, Axinn, & Thach, 2002). In the ensuing we assume that internalization is a matter of degree, i.e. we model internalization vs. externalization as a continuous variable and not a question of either/or. For each decision and task the manufacturer’s deep knowledge about the product/service and about generic customer demand for channel service output has to be balanced with the intermediary’s superior local market knowledge. Only by doing so, the best way to govern the specific channel can be identified since the effectiveness of each channel member to deliver demanded service output is decisive for the performance.

Balabanis (2000) examines the antecedents to the services offered by British export intermediaries. He categorizes these services into transaction-creating (market research, product adaptation, customer selection, negotiation, communication, training, and after-sales service) and physical-fulfillment services (freight, packaging, warehousing, documentation, financing, etc.). We focus on transaction-related aspects of the export channel, i.e. on information and promotion flows. The main export marketing tasks are the identification of new customers, the analysis of their behaviour, the actual sale to and communication with them, as well as after-sales contact involved in building long-term relationships. We examine the internalization of these export marketing tasks in our model ('Internalization of tasks' hereafter). Any task is preceded by a decision with regard to the type of task to be solved. In the process of contact with foreign customers, we focus on the degree of internalization of important export marketing decisions ('Internalization of decision making hereafter) such as the launch of new products, pricing, communication, and delivery conditions. This is not covering all channel decisions and tasks, but the most central export marketing aspects are included. For each of these items we explore the role of the exporter as well as the intermediary, i.e. degree to which the task solution or decision making is taking place in the exporter's organization, in the distributor's organization, or whether they collaborate on the issue.

2.2. Preconditions: Product characteristics and distributor quality

The present study focuses on exporters that market their product internationally through foreign intermediaries. Since the empirical part is cross-sectional, the implication is that at the time of data collection, each respondent operates through a certain distributor and sells a certain product in the foreign market.. In that sense, in our empirical study, distributor quality

and product technology complexity are regarded as preconditions for the role of the intermediaries.

2.2.1. Distributor quality.

It is well recognized in the literature that co-operative relationships with foreign distributors is a very important issue for exporters (Roath, Miller, & Cavusgil, 2002; Solberg & Nes, 2002; Nes, Solberg, & Silkoset, 2007). Engaging in such relationships between two independent entities is not easy because the partners have to establish common (or at least not incongruent) goals and motivations. They also have to agree on how to share the costs and benefits/profits obtained and they have to find common grounds with regard to the delegation of decision making and task solutions. It is of vital importance for especially SME exporters to be able to leverage foreign distributor competences, which is demonstrated by Knight & Cavusgil (2004) in their study of born-global firms.

It is evident that a firm is not able to pick and choose whichever distributor it wants and get good results. There will be a process of interaction and negotiation in order to reach the point of having a distributor of high quality. When engaging in a distributor relationship, the firm must accept dependency on its partner, especially if the partner's competences are not easily replaced by another firm. Being too dependent on a distributor may be challenging if the partner acts opportunistically. Following TCA arguments, exporters should therefore develop safeguards against such behaviour (Heide, 1994). Such safeguards may be obtained by internalization or at least participation in decision making as well as task solution in the marketing channel.

The present study does not look at the process of finding and establishing relationships with foreign intermediaries. It simply considers how satisfied the firm is with its present distributor in the specific product-market venture ('Distributor quality' hereafter). The satisfaction measure captures the extent to which the distributor has been instrumental and has met the expectations of the exporter with regard to an array of marketing issues (see the methodology section).

We expect that firms with high quality distributors tend to rely more on the distributor. First, satisfaction with the firm's distributor should lead to greater loyalty and hence increase the probability to 'buy' more services from that intermediary. *Second, through the process of negotiation and everyday business activities the exporter and the intermediary may have established common goals and built a sense of mutual trust that diminishes the need for safeguards. Trust in the intermediary should lead to lower cost related to control and 'running the system'; such lower cost would then also lead to increased 'buying' of services from the intermediary. As a consequence, we hypothesize that exporters' degree of internalization will decrease with higher satisfaction with the distributor. This is expected for the internalization of task solutions as well as of decision making.

H1. There is a negative association between distributor quality and the degree of internalization of task solution.

H2. There is a negative association between distributor quality and the degree of internalization of decision making.

2.2.2. Product technology complexity.

Product characteristics are important because the product is the platform of the firm's basic offer to the customers. Following the arguments of Solberg (2008), we hypothesize that there is an association between product characteristics, internalization/control and performance. More specifically, we expect increasing product complexity to be followed by more intense relationships in the marketing channel.

Due to bounded rationality, TCA argues that transfer of knowledge is costly and may cause misunderstandings if achieved through intermediaries, and therefore it must be expected that exporters with complex products are more actively taking part in the marketing efforts, i.e. decision making as well as task solution. High product complexity requires more intensive communication with customers, and more expertise in the interaction with customers. For that reason, task solutions should become more internalized (H3), e.g. in connection with product adaptation or service activities. As similar competencies are needed in the decision making, it is hypothesized that also internalization of decision making is positively associated with product technology complexity (H4), even though the local intermediary, because of his local market knowledge, should often be the superior decision maker. This is in line with Peng & Ilinitch (1998) who suggest that exporters are more likely to involve export intermediaries if they have simple, commodity-based products. This expectation is supported by empirical data presented by Trabold (2002) as well as Peng et al. (2006).

H3. There is a positive association between product technology complexity and the degree of internalization of export marketing task solution.

H4. There is a positive association between product technology complexity and the degree of internalization of export marketing decision making.

These hypotheses are in line with Bello & Gilliland (1997) who find that product complexity is positively linked to process as well as output control, i.e. internalization. This is also in line with their expectations based on transactional cost arguments that the manufacturer needs to safeguard unique products and also to be part of effective communication with potential and existing customers.

2.3. Export performance

We focus on the micro level of the firm, i.e the role of the intermediary for one specific product in one specific country-market. The specific product-market venture performance is therefore the relevant measurement level in order to obtain correspondence between the performance measure and the measures of internalization, distributor quality, and product complexity.

The present study applies subjective and relative measures of performance satisfaction. This is in accordance with Cavusgil & Zou (1994), who defined performance in international markets by a scale based on managers' subjective perception of the success of an export venture. Following the advice of Madsen (1998), we include soft aspects such as the firm's knowledge development ('perceived new market knowledge' hereafter) as well to hard aspects such as export sales, including market share ('perceived export performance' hereafter). Detailed information about the performance measure is included in the methodology section.

2.3.1. Performance and degree of internalization.

TCA predicts that the optimal degree of internalization for the specific export market-venture will survive. If that is true, exporters satisfaction with their results should be independent of the degree of internalization/control because each of them have chosen a governance structure that fits the market-venture. Along the same lines, Solberg & Nes (2002, p. 399) state that “Concerning financial performance, the lack of difference between the various export modes (agent, sales subsidiary, etc) suggests that each mode has its own economic rationale related to the specific situation of the exporter ...”.

But what is then the most efficient degree of internalization? Agency theory as well as TCA offers arguments for at least a minimum of internalization in the relationship between the manufacturer and foreign distributor (Bergen, Dutta, & Walker, 1992). As mentioned already, highly specific investments as well as product complexity would favour internalization. Furthermore, recognizing that the agent has goals that may not always co-align with those of the principal, the latter might collaborate with the agent in an attempt to minimize the risk for opportunistic behaviour. At least some joint efforts also improves the possibility to develop a set of mutually compatible goals and create an incentive system that incorporates more than economic objectives in order to increase the efficiency and effectiveness of their relationship (Zhang, Cavusvil, & Roath, 2003). These are the basic factors that should lead to higher satisfaction for the firm if it engages more in decision making as well as task solution.

There are, however, also arguments indicating that an exporter’s increased participation may cause increasing costs as well as conflicts in the channel: Perhaps explicit goal incongruence may hinder decision making or task solution, and bounded rationality may imply that the exporter favours decisions or task solutions that are inefficient in a foreign market culture. A key reason for operating with intermediaries is their local market knowledge (Mahoney,

Trigg, Griffin, & Putsay, 2001), as well as their ability to follow up on customers, etc. For firms with limited resources (e.g. SMEs) the delegation of decision rights and allocation of task solution to distributors may therefore be the best operation mode.

Bello & Gilliland (1997) found that exporters' efforts to influence the way foreign distributors perform activities (so-called process control) had no impact on the performance. They ascribe this finding to the expectation that "... manufacturers often lack sufficient understanding of the appropriate foreign market transformation process..." (p. 33). On the other hand, they find that efforts to monitor the distributor's results (sales, market penetration) are positively correlated with performance. Monitoring may be carried out by participation in task solution as well as in the decision making. So, the firm should find the right balance between internalization and externalization.

Since TCA is the basic theoretical foundation of our study, we choose to accept the argument that exporters will choose the degree of internalization that is most efficient for their specific market conditions. We therefore hypothesize that there is no association between the degree of internalization and perceived market knowledge as well as perceived export performance:

H5. There is no association between the degree of internalization of marketing task solution and the perceived new market knowledge.

H6. There is no association between the degree of internalization of marketing task solution and the perceived export performance.

H7. There is no association between the degree of internalization of marketing decision making and the perceived new market knowledge.

H8. There is no association between the degree of internalization of marketing decision making and the perceived export performance.

2.3.2. Performance versus distributor quality and product technology complexity

In accordance with the findings of Knight & Cavusgil (2004) we hypothesize that perceived distributor quality is positively associated with perceived new market knowledge as well as perceived export performance. The choice of business partners has significant impact on the firm's performance in international markets, as identified by Nijssen, Douglas, & Calis (1999) as well as Glaister & Buckley (1997). It seems evident that a high quality distributor will provide better possibilities for knowledge transfer and will increase the performance in the specific product-market venture:

H9. There is a positive association between distributor quality and the perceived new market knowledge.

H10. There is a positive association between distributor quality and perceived export performance.

It has often been discussed in the export literature that the exporter a priori has a liability of alienness. In other words, a customer will often prefer an indigenous firm as supplier rather than a foreign firm. Firms that offer more innovative and complex products than their competitors must be expected to have the best chance to overcome the liability of alienness because they can offer more obvious customer values. We therefore hypothesize that higher product technology complexity will lead to higher satisfaction with performance, which is in line with the findings of Knight & Cavusgil (2004). We also expect a positive association

with new market knowledge as technology complexity should suggest more interaction with lead customers and other actors in the foreign market. Such interaction will lead to better insight into local market conditions such as customer needs and wants as well as distribution channels and competitors' behaviour.

H11. There is a positive association between product technology complexity and the perceived new market knowledge.

H12. There is a positive association between product technology complexity and perceived export performance.

Figure 1 shows the total research model including the hypotheses formulated above.

Insert Figure 1 here

In addition to the stated hypotheses, we expect a positive association between the internalization of task solutions and the internalization of decision making as well as a positive association between perceived new market knowledge and perceived export performance.

3. Methodology

3.1. Sample and data collection

In 2005, questionnaires were addressed to senior managers in small and medium-sized Norwegian exporting manufacturers (SMEs; less than 250 employees). We focus on SMEs because they are extremely important for Norway (and other small countries). Furthermore, SMEs face the classical problem of having few resources and hence they are often forced to use intermediaries. For SMEs the role of such intermediaries is therefore of crucial importance for their export performance. Company classifications and address lists were obtained from the database of Kompass Norway. A total of 2415 questionnaires were posted, slightly above 5% were returned due to address errors. Of the remaining 2210, we received 308 questionnaires that were suitable for use (13,9 %). The true response rate is higher since we know from previous studies that some letters with questionnaires never reach the CEO of the firm. A total number of responding firms above 300 was regarded as satisfactory (see YangWang, & Su, 2006) and no follow-up was made to firms that did not respond to the questionnaire.

Of the 308 exporters, 227 did use independent distributors in their international marketing channel, and only these firms are included in the ensuing analyses. We have no knowledge about the use of independent distributors among non-respondents, but we have no reason to believe that it differs from the use among respondents. The typical firm in the sample (judged by the median) has 24 employees and an export share of 33%. It was established in 1981 and had its first export venture in 1986. Most firms operate on Business-to-Business markets. We were able to test for non-response bias with regard to geography (no bias) and firm size (respondents were larger firms than non-respondents). The firms were asked to choose their most important product in their most important export market as the basis for their responses. Respondents were assured anonymity and confidentiality.

3.2. Measures

The questionnaire was developed over a period of 8 months, building as much as possible on internationally published scales (systematic back-translation was used) and with a pre test in a limited group of company managers in order to assure concise questions with a minimum of ambiguousness and unfamiliar terms.

The scales related to internalization of tasks (IT) and internalization of decision making (ID) have no direct precedents in the literature, but are very central to the contribution of this article. The IT scale is, however, closely related to the transaction-creating services as operationalized by Balabanis (2000). The ID scale builds on the basic 4P account in marketing. The scales reflect the extent to which the firm itself is responsible for sales and marketing tasks/decision making in a particular market venture – as opposed to the distributor being responsible. Three items are related to the core export marketing tasks: identification of potential customers, analyzing customers' needs and wants, and communicating with customers ($\alpha=0.91$). The included export marketing decisions are related to launch of new products/services, price strategy and specification of local delivery conditions ($\alpha=0.83$). These items were chosen because they represent the basic decisions and tasks involved in any export activity. All of these items are based on questions about the extent to which the firm or its distributor had responsibility for task solution or decision making, measured by a 7-point scale anchored by 1 = our distributor is 100% responsible and 7 = our company is 100% responsible (4= joint responsibility).

The product/technology complexity (PTC) scale is inspired by Knight & Cavusgil (2004) as well as Bensaou & Anderson (1999). It taps into whether the firm's product represents a new, innovative approach to addressing the customer's basic needs, whether the product is unique

and innovative with respect to technology, and the degree of technical complexity (alpha=0.84). The PTC questions asked the respondent to evaluate the characteristics of the firm's own product/service in relation to competing products/services. Each answer was anchored by 1 = not at all, and 7 = to an extreme extent (4 = to some extent).

The distributor quality scale (DQ) reflects how the efforts of a particular distributor (as perceived by the firm) have contributed to its activities in a particular market venture. Based on Zhang, Cavusgil & Roath (2003), we include whether the distributor's had made the firm more responsive to customers and to changing market conditions. We supplement these measures of distributor quality by an item suggested by Knight & Cavusgil (2004) related to the local selling abilities (alpha=0.91). The DQ questions asked the respondent to evaluate whether the distributor contributed satisfactorily. Each answer was anchored by 1 = disagree totally, and 7 = agree totally.

The performance scales are inspired by Cavusgil & Zou (1994), Madsen (1998), and Knight & Cavusgil (2004). The perceived market knowledge scale (PMK) measures of satisfaction with 'soft' results such as increased knowledge based on access to lead customers as well as increased knowledge about competitors and new distribution forms (alpha = 0.72). The perceived export performance scale (PERF) includes items related to managers' satisfaction with 'hard' results: market share, sales growth, pre-tax profitability, and sales growth compared with main competitors (alpha=0.88). The respondent was asked to indicate the firm's degree of satisfaction over the past three years compared to prior expectations. Each answer was anchored by 1 = very unsatisfied, and 7 = very satisfied. Appendix A summarizes the measurements used in this study.

Recently, concerns with common method variance have been raised in the literature. This becomes an issue when using single respondents like in the present study. Such variance is attributed to the measurement method rather than the constructs of interest, and may cause systematic measurement error and further bias the estimates of the true relationship among theoretical constructs. Method variance can either inflate or deflate observed relationships between constructs, thus leading to both Type I and Type II errors (Chang, Witteloostuijn, & Eden, 2010). Ex post, we have tested possible influences caused by common variance. The Harman's one factor test showed that only 23,6% variance could be explained by the first factor extracted using principal component analysis and varimax rotation. Furthermore, a single factor model did not fit the data well. We also carried out a partial correlation procedure, but the resulting models only showed a minor decrease in the chi square. Ex ante, we did assure anonymity and confidentiality and stated that the important thing was to answer according to the situation in the actual firm, and thus there was no right or wrong answers. We also pre-tested the questionnaire in order to assure concise questions with a minimum of ambiguousness and unfamiliar terms. We therefore conclude that the common method variance seems to have only a small impact in our study.

4. Results

Appendix A presents the means and standard deviations of the constructs and indicators. It shows that exporters' participation in task solution is much less common (average score 3.73) than their control with decision making (average score 5.13). With an average score of 4.78 most firms seem reasonably satisfied with their distributors. Considering product/technology complexity, average score equals 4.26 with relatively high standard deviations on the items included. This suggests considerable variation in the level of product complexity among the firms.

A LISREL causal modelling approach was used to analyze the data (Jöreskog & Sörbom, 1995). The LISREL model is a powerful generalisation of the traditional linear regression model adding theoretical constructs as well (Bollen, 1989). The model accounts for measurement error, allows for simultaneous estimation of measurements and structural parameters, and provides diagnostic statistics for the model as a whole. With reference to Figure 1, the structural equations for the model are the following:

$$IT = \gamma_{11}DQ + \gamma_{12}PTC + \zeta_1 \quad (1)$$

$$ID = \beta_{21}IT + \gamma_{21}DQ + \gamma_{22}PTC + \zeta_2 \quad (2)$$

$$PMK = \beta_{31}IT + \beta_{32}ID + \gamma_{31}DQ + \gamma_{32}PTC + \zeta_3 \quad (3)$$

$$PERF = \beta_{41}IT + \beta_{42}ID + \beta_{43}PMK + \gamma_{41}DQ + \gamma_{42}PTC + \zeta_4 \quad (4)$$

The equations 1-4 show the relationships between the theoretical constructs derived from the fourteen basic hypotheses. According to Jöreskog & Sörbom (1995), lower Greek letters express parameters to be estimated.

The causal model was estimated by applying Robust Maximum Likelihood (RML) and a listwise missing procedure (n=206). The results are presented in table 3 and 4. The Satorra Bentler corrected chi square statistics (Satorra & Bentler, 1988)

($\chi^2 = 230.86$, $\frac{\chi^2}{df} = 1.33$, p -value = 0.0025) shows nearly acceptable fit (cf. Schermelleh-

Engel & Moosbrugger, 2003). However, RMSEA and the close fit test indicate good fit. The goodness of fit indices, GFI and NFI, indicate acceptable fit and CFI indicates good fit (cf. Schermelleh-Engel & Moosbrugger, 2003). The model captures 17 % of the variance in IT, 45 % of the variance in ID, 24 % of the variance in PMK, and 46 % in PERF. These values are relatively low for IT and PMK and may indicate omitted variables in the model.

The reliability measures of the measurement model in table 1 indicate high reliability of the theoretical constructs (cf. Diamantopoulos & Siguaw, 2000). The composite reliability measures are all above 0.6, indicating high reliability. The average reliability measures are all above 0.5, also indicating high reliability. We also observe that all factor loadings in table 1 are significant.

Insert Table 1 here

Table 2 shows the correlations among the theoretical constructs. We observe that there is a strong positive correlation between ID and IT, as well as between PERF and PMK.

Insert Table 2 here

Table 3 shows the estimated structural parameters with the t-values.

Insert Table 3 here

When we examine these results, perceived export performance is not related to product/technology complexity (rejecting H12), but is positively associated with distributor quality (H10). We did not expect significant relationships between the two internalization constructs and market knowledge/export performance. The results was different as internalization of task as expected had no significant relation to market knowledge development (supporting H5) but was positively related to perceived export performance (rejecting H6). As expected, internalization of decisions had no significant relation to market

knowledge development (supporting H7) but had a negative association with perceived export performance (rejecting H8). Perceived market knowledge development was related as expected to distributor quality and product/technology complexity (H9 and H11). Distributor quality and product/technology complexity was related to task internalization (H1 and H3), while none of these was significantly associated with internalization of decisions (rejecting H2 and H4). The expected relations between market knowledge development and perceived export performance did exist, in addition as the expected impact on internalization of tasks on internalization of decisions.

5. Discussion and implications

Figure 2 provides a summary of the significant relations.

Insert Figure 2 here

The study provides the basis for some managerial implications, but it also raises some important questions for future research.

5.1. The role of intermediaries

The empirical study has demonstrated the value of examining exporter-intermediary relationships more in detail rather than just looking at discrete types of intermediaries. Exporters apply different degrees of delegation for task solution and decision making. They are much more involved in local decision making (average 5.13) than in local task solution (average 3.73). So, the distinction is relevant for managers as well as researchers. Merely examining whether exporters use agents, distributors or importers does not grasp such differences because a specific type of intermediary may represent a variety of different

solutions with regard to the delegation of decision rights and responsibility for task solution. The data indicate that these are two separate constructs, and the data also reveal that exporters exhibit quite different behaviour with regard to delegation and involvement. Accordingly, future research should consider this distinction.

We identified a significant negative association between control with decision making and perceived export performance, but a significant positive association between involvement in task solution and perceived export performance. These results indicate that the responding exporters act in a way which does not maximize their export performance. In order to succeed better, they should apparently take more active part in local task solution, but delegate more decision rights to their local intermediaries. This is not unexpected from a theoretical point of view. Being the most knowledgeable about the product, the exporter should in fact participate a lot in task solution. On the other hand, being most knowledgeable about local market conditions, the intermediary should often be the best decision maker. But why, then, do exporters choose to involve themselves more in decision making than in task solution? One explanation may be that it is easier to make decisions at a distance than to solve tasks at a distance, but this issue should definitely be explored in future research. In any case, it seems to be very important that managers understand in which situations internalization has positive effects and in which situations effects may be negative. Only then they can develop a governance approach that motivates intermediaries and improves export performance. This is an extremely important topic especially for SMEs that constantly use intermediaries.

5.2. Other findings

As shown earlier, the firms in our study are generally quite satisfied with their distributors. Good distributors seem to be linked with exporters that have better knowledge about customers, competitors and distribution forms. This makes sense since a good distributor is knowledgeable about the market conditions and should be willing to share this knowledge with the exporter in order to improve sales and profitability. In our study, firms that are very satisfied with their foreign distributor delegate more responsibility for task solution, but it is striking that regardless of the satisfaction with the distributor, firms in the present study only delegate decision rights to a very a modest extent. This is rather surprising. In order to build a relationship based on solidarity (Zhang, Cavusgil & Roath (2003), or trust and integrity (Solberg, 2008), it would seem natural that firms with very good distributors would delegate more decision rights. This is not the case, however. Perhaps highly qualified distributors try to involve exporters in decision making in order to increase their commitment.

As demonstrated, complex products seem to be associated with better knowledge about customers, competitors and distribution forms. This makes sense since product complexity necessitates more intensive communication with customers (about use, adaptations, service, etc.). Maybe because of that, firms with very complex products seem to internalize more responsibility for task solution. Complex products require more adaptation, communication, and advice which are often carried out most effectively through direct contact between the exporter's experts and the customer. Our hypothesis was that high complexity would be followed by internalization of decision making. This is, however, not the case in our data set, it seem as decisions right delegation is independent of product complexity.

It may seem surprising that firms' satisfaction with the knowledge they develop from their market ventures does not rest on their participation in task solution and control with decision

making. The firms in our data set are equally satisfied with this performance dimension, regardless of their degree of internalization. They have apparently chosen the degree of delegation that fits their specific situation with regard to their access to lead customers as well as knowledge about competitors and new forms of distribution.

6. Concluding remarks

The role of independent intermediaries has been explored in detail on the basis of novel scales developed to capture the degree of internalization of export marketing decisions as well as task solution. The results indicate that exporters internalize decision making too much, but take too little responsibility for task solution. However, more in-depth studies are called for in order to understand the rather complex interrelationships between perceived performance and the internalization constructs. Is it so that the local partner is the better decision maker because of his high local market knowledge whereas the exporter is a better task solver due to his high product knowledge? Is that true if the distributor has a very high quality, or is joint decision making better in that case, as indicated above? Future studies could explore these relationships more in detail along with the interrelationships between distributor quality, control, involvement, and knowledge development.

Future research could also attempt to overcome some of the limitations of the present study: Firstly, studies looking at populations involving not only SMEs from one country would be welcomed. Secondly, firms in the present study come from a cross-section of all manufacturing industries, but a focused study on one industry might have the potential to provide deeper knowledge about the questions raised above. Thirdly, triangulating with qualitative, in-depth studies would complement the present study that has the usual weaknesses of surveys. Fourthly, additional decision making and task solution items related to

flows of title, physical goods, and payment could be included. Finally, this study has not examined aspects such as power and conflict in the channel, and it has not looked at the type of distributor contract (incentive-based versus behavioural-based), channel length and complexity, the cultural setting and the competitive conditions of the export market. Such factors could be expected to influence performance outcomes and could certainly be more in focus in future studies.

Literature

Anderson, E. & Gatignon, H. (1986). Modes of foreign entry: A transaction cost analysis and propositions. *Journal of International Business Studies*, 17 (3), 1–26.

Balabanis, G.I. (2000). Factors Affecting Export Intermediaries' Service Offerings: The British Example. *Journal of International Business Studies*, 31,1, 83-99.

Bello, D.C. & Williamson, N.C. (1985). Contractual arrangement and marketing practices in the indirect export channel. *Journal of International Business Studies*, Summer, 65-82.

Bello, D. C. & Gilliland, D.I. (1997). The effect of Output Controls, Process Controls, and Flexibility on Export Channel Performance. *Journal of Marketing*, 61 (January), 22-38.

Bensaou, M. & Anderson, E. (1999). Buyer-Supplier Relations in Industrial Markets: When Do Buyers Risk Making Idiosyncratic Investments? *Organization Science*, 10 (4), 460-481.

Bergen, M., Dutta, S. & Walker, O.C. (1992). Agency relationships in marketing: A review of the implications and applications of agency and related theories. *Journal of Marketing*, 56, 1–24.

Bilkey, W. J., & Tesar, G. (1977). The Export Behaviour of Smaller Sized Wisconsin Manufacturing Firms. *Journal of International Business Studies*, 8, 1, 93-98.

Bollen, K.A. (1989). *Structural equations with latent variables*. New York: Wiley.

Cavusgil, S.Tamer & Zou, S. (1994). Marketing strategy-performance relationship: An investigation of the empirical link in export market ventures. *Journal of Marketing*, 58 (January), 1–21.

Chang, S-J., Witteloostuijn, A. & Eden, L. (2010), From the Editors: Common method variance in international business research, *Journal of International Business Studies*, 41, 178-184.

Coughlan, A.T., Anderson, E., Stern, L.W. & ElAnsary, A. (2001). *Marketing Channels*. Sixth edition. Prentice Hall, New Jersey.

Diamantopoulus, A. & Siguaw, J. (2000). *Introducing LISREL*. London: Sage Publications.

Glaister, K.W. & Buckley, P.J. (1997). Task-related and Partner-related Selection Criteria in UK International Joint Ventures, *British Journal of Management*, 8, 199-222.

Heide, J. (1994). Interorganizational governance in marketing channels. *Journal of Marketing*, 58 (1), 71-85.

Heide, J.B. & John, G. (1992). Do norms really matter? *Journal of Marketing*, 56, 32-44.

Johanson, J. & Vahlne, J-E. (1977). The internationalization process of the firm: A model of knowledge development and increasing foreign market commitment. *Journal of International Business Studies*, 8 (1), 23–32.

- Jöreskog, K.G. & Sörbom, D. (1993). *LISREL 8: Structural Equation Modeling with the Simplis Command Language*. Scientific Software International, Inc.
- Knight, G. A. & Cavusgil, S.T. (2004). Innovation, organizational capabilities, and the born-global firm. *Journal of International Business Studies*, 35, 124-141.
- Madsen, T. K. (1998). Managerial Judgement of Export Performance. *Journal of International Marketing*, 6 (3), 82-93.
- Mahoney, D., Trigg, M., Griffin, R. & Putsay, M. (2001). *International Business; A managerial perspective* (2nd edn), Pearson Education.
- Nes, E.B., Solberg, C.A. & Silkoset, R. (2007). The impact of national culture and communication on exporter–distributor relations and on export performance. *International Business Review*, 16 (4), 405-424.
- Nguyen, T.D., Barrett, N.J. & Fletcher, R. (2006). Information internalisation and internationalisation—Evidence from Vietnamese firms. *International Business Review*, 16 (6), 682-701.
- Nijssen, E. J., Douglas, S.P., & Calis, G. (1999), Gathering and using information for the selection of trading partners, *European Journal of Marketing*, 33(1-2); 143-62.
- Pedersen, T., Petersen, B. & Benito. G.R.G. (2002). Change of foreign operation method: impetus and switching costs. *International Business Review*, 11 (3), 325-345.

Peng, M.W. & Ilinitch, A.Y. (1998). Export intermediary firms: A note on export development research. *Journal of International Business Studies*, 29, 3, 609-620.

Peng, M.W., Zhou, Y. & York, A.S. (2006). Behind make or buy decisions in export strategy: A replication and extension of Trabold. *Journal of World Business*, 41, 289-300.

Rialp, A., Axinn, C. & Thach, S. (2002). Exploring channel internalization among Spanish exporters. *International Marketing Review*, 19 (2), 133-155.

Roath, A.S., Miller, S.R., & Cavusgil, S.T., (2002). A conceptual framework of relational governance in foreign distributor relationships, *International Business Review*, 11, 1, 1-16.

Satorra, A. & Bentler, P.M. (1988). *Scaling corrections for the chi square statistics in covariance structure analysis*. Proceedings of the Business and Economic Statistics Section of the American Statistical Association, 308-313.

Schermelleh-Engel K. & Moosbrugger, H. (2003). Evaluating the Fit of Structural Equation Models: Tests of Significance and Descriptive Goodness-of-Fit Measures. *Methods of Psychological Research Online*, 8 (2), 23-74.

Solberg, C.A. (2008). Product Complexity and Cultural Distance Effects on Managing International Distributor Relationships: A Contingency Approach. *Journal of International Marketing*, 16 (3), 57-83.

Solberg, C.A. & E.B. Nes (2002). Exporter trust, commitment and marketing control in integrated and independent export channels. *International Business Review*, 11 (4), 385–405.

Trabold, H. (2002). Export intermediation: An empirical test of Peng and Ilinitich. *Journal of International Business Studies*, 33, 2, 327-344.

Yang, Y., Wang, X., & Chenting Su (2006). A review of research methodologies in international business, *International Business Review*, Volume 15, Issue 6, December, 601-617.

Williamson, O.E. (1979). Transaction cost economics: The governance of contractual relations. *Journal of Law and Economics*, 233-261.

Zhang, C., Cavusgil, S. Tamer & A.S. Roath (2003). Manufacturer governance of foreign distributor relationships: Do relational norms enhance competitiveness in the export market? *Journal of International Business Studies*, 34, 550-566.

Table 1. Summary of the measurement model

Factor Loadings	Estimates ¹ (t-value):	R square for the Items	Composite reliability	Average variance extracted
λ_{11}^x	.81	.65	DQ	DQ
λ_{21}^x	.94 (14.72 *)	.89	.91	.72
λ_{31}^x	.88 (13.64 *)	.78		
λ_{41}^x	.75 (13.49 *)	.57		
λ_{52}^x	.69	.48	PTC	PTC
λ_{62}^x	.80 (10.01 *)	.64	.82	.54
λ_{72}^x	.83 (10.19 *)	.69		
λ_{82}^x	.66 (8.33 *)	.43		
λ_{11}^y	.82	.67	IT	IT
λ_{21}^y	.90 (15.41 *)	.81	.91	.76
λ_{31}^y	.90 (17.38 *)	.80		
λ_{42}^y	.69	.48	ID	ID
λ_{52}^y	.81 (8.59 *)	.66	.82	.61
λ_{62}^y	.83 (8.53 *)	.69		
λ_{73}^y	.80	.64	PMK	PMK
λ_{83}^y	.72 (8.94 *)	.52	.72	.47
λ_{93}^y	.49 (6.40 *)	.24		
$\lambda_{10,4}^y$	.86	.73	PERF	PERF
$\lambda_{11,4}^y$	.89 (22.89 *)	.79	.93	.77
$\lambda_{12,4}^y$	.84 (13.91 *)	.71		
$\lambda_{13,4}^y$	.62 (9.09 *)	.,38		

¹ Completely standardized estimates.

* : Significant at the 5 % level.

Table 2. Correlation coefficients of the constructs

Constructs	DQ	PTC	IT	ID	PMK	PEC
DQ	1					
PTC	.09	1				
IT	-.36	.17	1			
ID	-.12	.21	.66	1		
PMK	.24	.38	.15	.25	1	
PEC	.22	.23	.18	.13	.65	1

Table 3. Summary of structural equation model

Structure parameter	Hypothesis	LISREL Estimates	t-value
γ_{11}	H1: DQ vs IT	-.37	-5.10 *
γ_{12}	H3: PTC vs IT	.20	2.77 *
γ_{21}	H2: DQ vs ID	.11	1.54
γ_{22}	H4: PTC vs ID	.09	1.11
γ_{31}	H9: DQ vs PMK	.26	2.89 *
γ_{32}	H11: PTC vs PMK	.31	3.52 *
γ_{41}	H10: DQ vs PERF	.14	1.76 *
γ_{42}	H12: PTC vs PERF	-.03	-.38
β_{21}	IT vs ID	.68	6.81 *
β_{31}	H5: IT vs PMK	.09	.79
β_{32}	H7: ID vs PMK	.16	1.45
β_{41}	H6: IT vs PERF	.25	2.23 *
β_{42}	H8: ID vs PERF	-.17	-1.94 *
β_{43}	PMK vs PERF	.63	5.86 *
Indicators of model fit			
Satorra Bentler Chi square (p-value)			230.86 (.0025)
GFI			.89
NFI			.94
CFI			.98
RMSEA (p-value close fit)			.04 (.89)
$R^2 = .17$ for η_1 ; $R^2 = .45$ for η_2 ; $R^2 = .24$ for η_3 ; $R^2 = .46$ for η_4 ;			

Structure parameter	LISREL Estimates	t-value
γ_{11}	-.37	-5.10 *
γ_{12}	.20	2.77 *
γ_{21}	.11	1.54
γ_{22}	.09	1.11
γ_{31}	.26	2.89 *
γ_{32}	.31	3.52 *
γ_{41}	.14	1.76 *
γ_{42}	-.03	-.38
β_{21}	.68	6.81 *
β_{31}	.09	.79
β_{32}	.16	1.45
β_{41}	.25	2.23 *
β_{42}	-.17	-1.94 *
β_{43}	.63	5.86 *
Indicators of model fit		
Satorra Bentler Chi square (p-value)		230.86 (.0025)
GFI		.89
NFI		.94
CFI		.98
RMSEA (p-value close fit)		.04 (.89)
$R^2 = .17$ for η_1 ; $R^2 = .45$ for η_2 ; $R^2 = .24$ for η_3 ; $R^2 = .46$ for η_4 ;		

* : Significant at the 5 % level.

Figure 1. The model

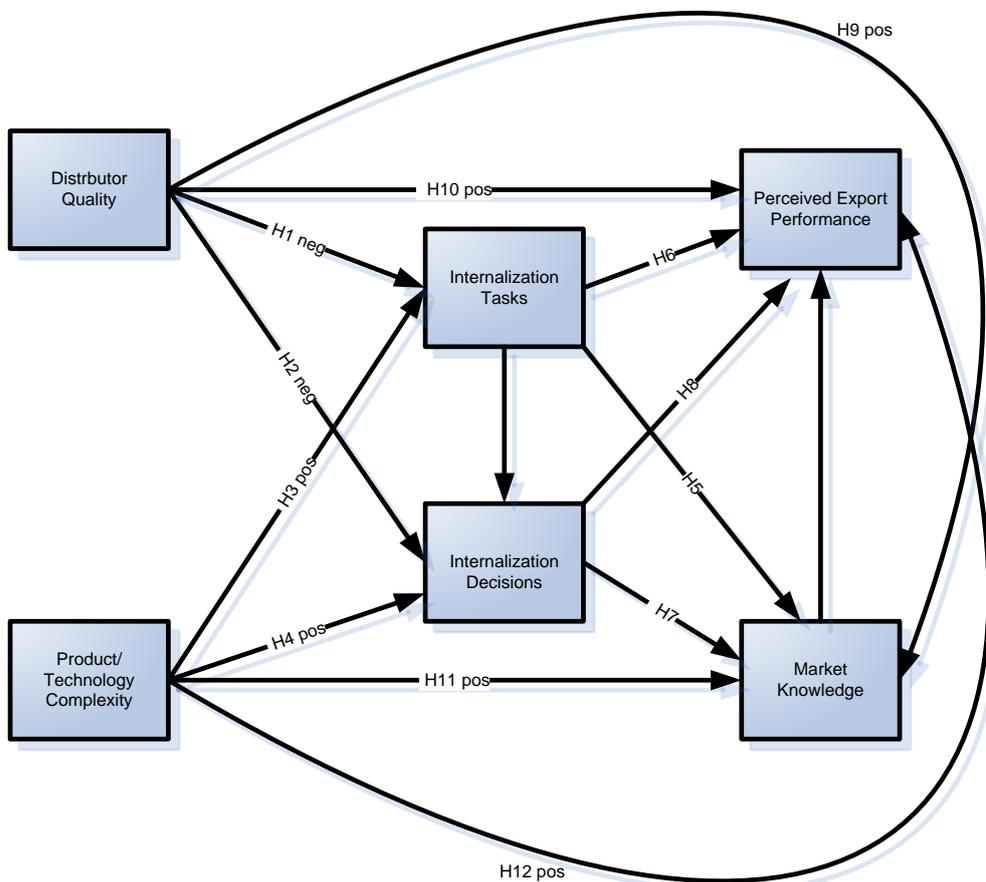
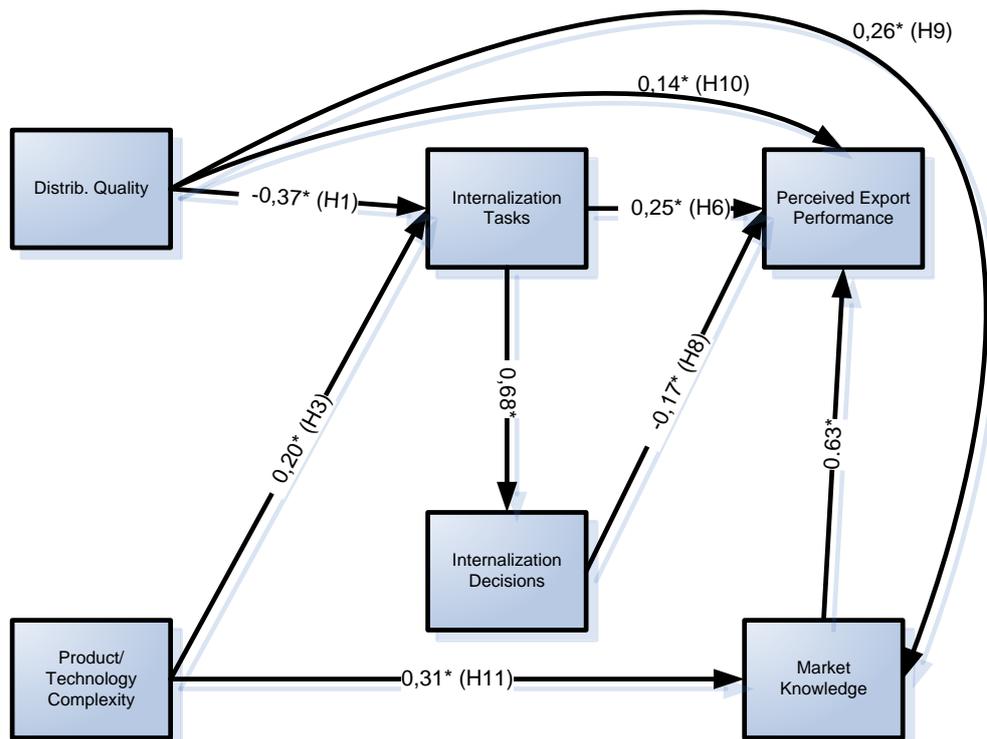


Figure 2. A summary of significant associations (including H8 opposite of expected)



Appendix A. Constructs and indicators (N=227).

Constructs and Indicators	Name	Mean	Std. dev.
<i>Internalization of tasks (IT)</i>			
Identification of potential customers	IT1	3.55	1.74
Analyzing customer needs and wants	IT3	3.85	1.74
Communicating market offer to customers	IT4	3.78	1.81
<i>Mean</i>		3.73	
<i>Internalization of decision making (ID)</i>			
Launch of new products/services	ID1	5.17	1.59
Price strategy	ID3	5.04	1.66
Local delivery conditions	ID4	5.17	1.59
<i>Mean</i>		5.13	
<i>Distributor quality (DQ)</i>			
Delivered value	DQ1	5.02	1.59
Made us more responsive to customers	DQ2	4.77	1.52
Made us more responsive to changing conditions	DQ3	4.62	151
Has good abilities related to local selling	DQ4	4.69	1.50
<i>Mean</i>		4.78	
<i>Product technology complexity (PTC)</i>			
New, innovative approach to addressing basic needs	PTC1	4.03	178
Unigue with respect to technology	PTC2	3.90	1.94
Unigue with respect to performance	PTC3	4.51	1.76
Perceived as technically complicated by customers	PTC4	4.58	1.84
<i>Mean</i>		4.26	
<i>Perceived export performance (PERF)</i>			
Market share	PERF1	3.97	1.32
Sales growth	PERF2	3.89	1.33
Sales growth compared with main competitor	PERF3	4.18	1.37
Pre-tax profitability	PERF4	4.00	1.35
<i>Mean</i>		4.01	
<i>Perceived knowledge development (PMK)</i>			
New competences based on lead customers in country-market	PMK1	4.93	1.25
Knowledge about competitors' strategy and behaviour	PMK2	4.28	1.15
Knowledge about new distribution forms	PMK3	4.00	1.19
<i>Mean</i>		4.40	