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SCHUMPETERIAN DYNAMICS VERSUS WILLIAMSONIAN CONSIDERATIONS: A TEST OF EXPORT INTERMEDIARY PERFORMANCE*

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ABSTRACT

Using a sample of export intermediaries connecting domestic producers and foreign buyers, the study tests competing hypotheses on firm performance derived from the Austrian and transaction cost perspectives. Specifically, the Austrian perspective suggests that the more distant the export market and the more complex the product that the intermediary specializes in, the better its performance. Transaction cost theory, on the other hand, offers conflicting predictions. Our results indicate that these two theories are complementary to each other, and a contingency framework is proposed and discussed.

INTRODUCTION

> The fundamental impulse which sets and keeps the capitalist engine in motion comes from the new consumers' goods, the new methods of production, the new markets, and the new forms of industrial organization that capitalist enterprise creates. (Joseph Schumpeter, 1942, p. 83)

> One behavioral assumption holds that human agents will not reliably self-enforce promises but will defect from the letter and the spirit of an agreement when it suits their purposes . . . To be sure, suspicions and precautions can be and sometimes are taken to excess. But a healthy regard for opportunism is essential to an understanding of the purposes served by complex modes of economic organization. (Oliver Williamson, 1985, p. 388)

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Two theoretical perspectives have emerged in the strategic management literature to account for differences in firm performance. The Austrian school, originally proposed by Schumpeter (1942) and recently articulated by Casson (1990), Hill and Deeds (1996), Jacobson (1992), Kirzner (1997), and Young et al. (1996), suggests that the fundamental driver of firm performance is entrepreneurial discovery of new market opportunities. On the other hand, the transaction cost perspective, spearheaded by Coase (1937) and popularized by Williamson (1985, 1991, 1996), argues that how a firm overcomes transaction cost problems such as opportunism plays a crucial role in determining its performance. In essence, if Schumpeter's motto was 'Be bold, be bold', then Williamson's would be 'But not too bold'.

Since both perspectives are logically consistent and empirically supported by a number of studies, the tension between them creates a paradox that calls for more empirical efforts toward resolution (Poole and Van de Ven, 1989). Although there are numerous studies grounded in one of the two perspectives, direct tests of *competing* hypotheses have been rare. The purpose of this paper, therefore, is to partially fill this gap by examining competing hypotheses drawn from these two schools of thought. The test will be based on the performance of a sample of US-based export intermediary firms in different country and product markets. In the remainder of the paper, we will first introduce the role of export intermediaries. Then we derive four competing hypotheses and outline our methodology. Key findings are then reported and discussed.

THE ROLE OF EXPORT INTERMEDIARIES

Intermediaries perform an important economic function by linking individuals and firms that otherwise would not have been connected. Such a function is especially critical in export transactions characterized by the geographical and cultural separation between sellers and buyers (Peng and Ilinitch, 1998). Usually dubbed 'traders', export intermediaries are specialized service firms whose mission is to bridge the gap between domestic manufacturers and foreign customers (Peng, 1998).

While large firms tend to possess necessary resources and skills to handle exporting in house, many small and mid-size manufacturers do not. Smaller firms tend to shy away from exporting, not only because of their limited resources and lack of knowledge regarding foreign markets, but also because of the perceived risk and uncertainty associated with overseas sales. As a result, during their initial stage of export involvement, they often need assistance from export intermediaries. Intermediaries can calm smaller manufacturers' 'fears' about foreign markets by leveraging their knowledge about overseas markets and efficiency of selling products abroad. They economize on exporting costs, through their contacts, experience, specialization and scale of operations, more efficiently than many manufacturers can achieve on their own (Peng, 1998). In the United States, the export intermediary sector consists of several thousand export management companies and export trading companies. At the outset of the 1990s, they collectively handled approximately 5–10 per cent of total US exports (Perry, 1992).

For decision makers at export intermediaries, focusing on what markets to specialize in is a key strategic decision. Unlike large Japanese trading companies, which have the prowess to carry a broad range of products and services (Peng, 1998), most US export intermediaries are small, undercapitalized and lack market

power (Bello and Williamson, 1985; Brasch, 1978; Perry, 1992). As a result, they cannot adopt a 'generalist' strategy; instead, the viable choice would be a 'specialist' or niche strategy (Peng and Ilinitch, 1998). Then the question becomes: what niche markets will give them the highest performance potential?

COMPETING HYPOTHESES

The market choice question confronting export intermediaries presents an interesting empirical setting to examine predictions made by the Austrian and transaction cost perspectives. In this section, we decompose this broad question into two smaller components and derive four competing hypotheses.

The Choice of Country Markets

According to the Austrian perspective, entrepreneurs such as export intermediary managers are constantly in search of better market opportunities – hence the famous term *market process* (Schumpeter, 1942). 'What constitutes that process is the series of discoveries generated by the entrepreneurial boldness and alertness' (Kirzner, 1997, p. 73). To profit from these opportunities, a firm needs (1) to possess knowledge about some undiscovered markets, and (2) to utilize profitably such knowledge in a way that competitors are unable to match (Barney, 1991; Jacobson, 1992).

This capability to search, possess and utilize market knowledge is critical for export intermediary performance (Hill and Deeds, 1996). The very existence of export intermediaries depends on, first, their knowledge about certain foreign markets that are unfamiliar to their client firms (that is, mostly small and mid-size exporters), and, then, their ability to leverage such expertise. Otherwise, manufacturers may well decide to enter foreign markets on their own (Anderson and Coughlan, 1987). Given that knowledge about nearby markets (e.g. Canada) tends to be readily available, the Austrian perspective suggests that intermediaries concentrating on more distant foreign markets (e.g. Central Asia, Middle East), based on their expertise in these countries, may stand a better chance for superior performance. Holding demand constant, the more unfamiliar these markets are to exporters, the more likely the intermediary can carve out a niche. Perceived chaos and risk in distant, unfamiliar markets such as the former USSR will give intermediaries that know their way around first mover advantages (Luo and Peng, 1998, 1999; Peng, 2000; Peng and Heath, 1996). The most entrepreneurial intermediaries are those that can 'thrive on chaos' in distant markets (Lumpkin and Dess, 1996; Peters, 1987). In other words, the best-performing intermediaries are able to take advantage of the 'information asymmetry' situation – that is, possessing knowledge, information, and expertise in distant markets that competitors and clients do not have (Peng and Ilinitch, 1998). Thus:

> *Hypothesis 1:* The more distant the country markets that the export intermediary specializes in, the higher its performance.

Transaction cost theory, on the other hand, suggests a different scenario.[1] Due to political, economic and cultural differences among different countries (Hofstede, 1980), export-related transaction costs tend to be higher than domestic

transaction costs, and export expansion is inherently risky (Barkema et al., 1996). Moreover, these differences may lead to different interpretations of sales contracts. Contract disputes may stem from foreign buyers' misunderstanding of contract specifics due to cultural differences, or from their deliberate opportunistic behaviour (Williamson, 1985, 1996). As a result, in distant foreign markets, due to a high degree of the 'liability of foreignness' (Zaheer, 1995), export intermediaries may run into serious transaction hazard, such as distorted information, negotiation breakdown, and nonperformance of contracts. In other words, information asymmetry between international markets may lead to transaction difficulties. That is why most firms tend to begin their internationalization process in markets that are culturally or 'psychically' close to their home country (Anderson, 1993; Johanson and Vahlne, 1977; O'Grady and Lane, 1996). This reasoning leads to a competing hypothesis:

Hypothesis 2: The more distant the country markets that the export intermediary specializes in, the lower its performance.

It is important to note that these two hypotheses do not hold transaction specificity constant across different markets. They predict performance variations among export intermediaries based on one independent variable, namely, the cultural distance between the home country and the export markets. The issue of transaction specificity will be dealt with in the next section, when the choice of product markets is discussed.

The Choice of Product Markets

Focusing on the 'market process', the Austrian perspective posits that entrepreneurs at export intermediaries will always look for new ways to add value to the export process (Kirzner, 1997). One way to add value is to bring new products that have not reached abroad to export markets. Innovative, complex and technology-intensive ('high-tech') products from one country may generate strong sales overseas, thus helping manufacturers extend product life cycle and attain economies of scale. As a result, intermediaries that have the expertise in selling complex, high value-added products abroad may have better performance.

Compared with traders elsewhere, export intermediaries in the United States have access to a strong industrial base famous for its innovation capability, thus representing potential to create strong competitive advantage abroad. Intermediaries that have the ability to take advantage of the best products that American manufacturers can offer may be able to generate 'entrepreneurial profits' abroad (Kirzner, 1997). Therefore, we derive:

Hypothesis 3: The more complex the products that the export intermediary specializes in, the higher its performance.

The transaction cost perspective paints an entirely different picture on this issue. According to Williamson (1985), the distribution of complex, differentiated products requires significant transaction-specific investments such as specialized sales forces and post-sale services. Manufacturers need to monitor closely the distribution channel to ensure that these service activities are performed up to their standards, and enforce these standards if necessary. As a result, complex products call

for more channel integration, since direct sales forces are more willing to perform non-selling activities (e.g. demonstrations, trade shows, services) and carry these products whose selling cycle is relatively long. Outside independent intermediaries, on the other hand, are considered unwilling to invest in such training and services without an immediate, certain and concrete payoff (Anderson and Coughlan, 1987). Even if some intermediaries are willing to take on these tasks, their number will be limited, thus presenting a 'small numbers' problem which may make manufacturers vulnerable in case of intermediary opportunism (Williamson, 1985). Therefore, manufacturers of complex products are more likely to forward integrate, establishing in-house channels to exercise greater control over distribution and making it difficult for intermediaries to be involved (Lassar and Kerr, 1996). Even for export intermediaries that are given such complex contracts, manufacturers may simply want to use them to 'test the water' abroad and phase them out soon, thus diminishing the prospects for intermediary success.

In contrast, commodity transactions are primarily based on price. Transactions involving these products are less costly to monitor, and, thus, contracts involving these products are easier to enforce. Moreover, the commodity nature of these products may enable a broad range of intermediaries to compete for the export contract, thus minimizing potential intermediary opportunism and avoiding the small numbers problem discussed above (Anderson and Coughlan, 1987; Williamson, 1985). Under these circumstances, the best strategy for export intermediaries may be to avoid complex products that manufacturers have a higher propensity to engage in direct export and focus on relatively 'low-tech' and undifferentiated commodity-based products (Peng and Ilinitch, 1998). Therefore, from a transaction cost perspective, we derive:

Hypothesis 4: The more complex the products that the export intermediary specializes in, the lower its performance.

In summary, the Austrian and transaction cost perspectives suggest competing predictions on the performance of export intermediaries based on their country and market specialization. Such a paradox (Poole and Van de Ven, 1989) calls for more empirical work, which we turn to next.

METHODOLOGY

Sample and Survey

Although this paper reports a large sample survey, it had substantial qualitative antecedents. The research was initiated with extensive case studies of five export intermediaries involving two owners/managers per firm, which were published elsewhere (Peng, 1998). Attempting to quantitatively validate the case findings, we undertook a mail survey in 1995. Since most export intermediaries in the United States are small private firms and very little archival data on them exist, the survey method was also used by the previous studies on these firms (Bello and Williamson, 1985; Brasch, 1978).

The design and implementation of the survey were based on the total design approach (Dillman, 1978). A questionnaire was first pre-tested with ten export entrepreneurs. Shaped by the case studies and pre-tests, the questionnaire was

purposefully designed to be a brief four pages in order to increase the response rate. On a separate postage-paid reply postcard, respondents could (a) request a telephone interview to complete the questionnaire, or (b) indicate their refusal to participate. Previous research showed that such a choice would increase survey response not only because it creates a more flexible opportunity to respond, but also because, by giving respondents a choice that is not a flat refusal, researchers can increase their involvement in the interaction and make it more awkward to refuse (Tomaskovic-Devey et al., 1994, p. 454). Also, two rounds of mailings were attempted in order to prompt more responses.

The survey population was obtained from the 'Trading Companies' section in the 1994 edition of the *Export Yellow Pages* published by the US Department of Commerce, which was routinely used by practitioners. We randomly selected 1,046 of these firms. The majority of the contact persons listed in the directory were owners, principals and managers. Results from the case studies and pre-tests suggested that these firms were usually very small, often involving only a few individuals. As a result, the accounts given by two informants of the same firm were highly consistent (Gunttman split-half reliability R ranged from 0.78 to 0.93). In addition, it would be difficult to obtain more than one respondent from one firm for a large sample. Therefore, we sought only one respondent per firm. There were 131 cases of bad addresses, which reduced the effective sample to 915. We received responses from 195 firms, yielding a response rate of 21.31 per cent, which was comparable with other studies. The mean size of the response firms was 6.77 individuals (involving both owners/managers and employees), with a standard deviation of 3.41. Among respondents, 84 per cent were owners, principals and partners, and 12 per cent were managers. Overall, the small size of these firms and the level of respondents gave us confidence in the single informant method.

However, testing non-response bias was difficult. Because there is no publicly available comprehensive database for these firms, checking the characteristics of the respondent firms against those published in the database is not feasible. To solve this problem, Armstrong and Overton (1977) suggested that 'subjects who respond less readily [e.g. defined as answering later, or as requiring more prodding to answer] are more like nonrespondents' (p. 397) and that 'the theoretical last respondent be used as a prediction for the nonrespondent' (p. 401). As a result, we recorded the chronological order of responses. All of the 195 returned surveys were divided into four equal groups – the first subgroup contained the first batch of the responses received; the second subgroup contained the second batch; and so on. Following Bello and Lohtia (1995), Chi-square tests were used to determine the significance of the differences along five key demographic dimensions of the first and last batches: (a) firm age, (b) number of people, (c) total export sales, (d) type of clients, and (e) average export sales margin. No significant differences were found between these two batches, thus implying little non-response bias. Although this method was not perfect, lack of feasible alternatives as well as recent precedents justified its use (Armstrong and Overton, 1977). In addition, the demographics of our respondent firms (table I) appeared to be broadly consistent to those obtained in surveys undertaken in the 1970s (Brasch, 1978) and 1980s (Bello and Williamson, 1985), presenting few surprises or anomalies.

Table I. Key demographic characteristics of the respondent firms

Characteristics (n = 195 firms)	*Response number*	*Percentage %*
1. Respondents' positions		
Owner	130	66.67
Principal/partner	34	17.44
Manager	24	12.31
Salesperson	3	1.54
Other	2	1.02
No response	2	1.02
2. Respondents' export experience		
0–5 years	56	28.72
6–10 years	36	18.46
11–20 years	45	23.08
More than 20 years	58	29.74
3. Firm size measured by the number of people involved[a]		
1–4	101	51.79
5–9	32	16.41
10–24	23	11.79
25–49	7	3.60
50 and over	10	5.13
No response	22	11.28
4. Firm age		
Less than 5 years	63	32.31
6–10 years	51	26.15
11–20 years	42	21.54
Over 20 years	39	20.00
5. Type of client firms		
Uninterested in exporting	31	15.90
Occasional exporter	64	32.82
Established exporter	44	22.56
Globalized firm	32	16.41
Other	15	7.69
No response	9	4.62

Note:
[a]Including both owners/principals and employees.

Dependent Variables

Export performance is the key dependent variable in this study. However, 'there is no uniform definition of export performance in the literature' (Cavusgil and Zou, 1994, p. 4). Export performance measures can be economic (i.e. sales and profitability) or strategic (i.e. goal attainment) in nature. Previous research (Cavusgil and Zou, 1994; Dess and Robinson, 1984) suggested that, in the absence of archival data, self-reported measures are acceptable and are often equally reliable. We used two self-reported items to triangulate this important construct: (a) per capita export sales, and (b) net export sales margin, as relatively objective measures. Regarded as a measure of overall organizational productivity, per capita export sales was obtained by dividing total sales with the number of people

involved in exporting (both owners/principals/managers and employees). Compared with total sales, this measure controlled for differences between large and small firms. As a profitability measure, net export sales margin reflected a firm's efficiency. This information was directly provided by respondents.

Independent Variables

Cultural distance. Hypotheses 1 and 2 required a measure for the cultural or 'psychic' distance between the United States and the target country.[2] Based on Hofstede's (1980) influential study, Kogut and Singh (1988) and Ronen and Shenkar (1985) developed cultural distance indices. While insightful, the Kogut and Singh index did not group different countries into cultural blocks. The Ronen and Shenkar index, on the other hand, would enable us to place different countries into one of the eight main cultural blocks (namely, Anglo, Arab, Far East, Germanic, Latin America, Latin Europe, Near East and Nordic) and one independent block which included four 'outliers' (Brazil, India, Israel and Japan). The implication is that the cultural distance between the United States, which belongs to the Anglo block, and other blocks increases as one moves from the Anglo block to more distant blocks such as Near East and Arab blocks. We therefore employed the Ronen and Shenkar index.

We asked respondents to identify their top country markets in which they specialized. Since our sample size was only 195, dividing them into eight main cultural blocks and one independent block according to the Ronen and Shenkar (1985) index would result in some very small group sizes (e.g. two in the Near East block, four in the Nordic block, eight in the Latin Europe block, and nine in the Germanic block) (the appendix contains more details about these cultural blocks and sample sizes). Comparison based on such small group sizes would be highly unstable. Therefore, we focused on blocks with relatively large group sizes, i.e. the Latin America block with 50 firms and the Far East block with 40 firms. Then we put 33 firms specializing in four different European blocks (i.e. Anglo [including four firms specializing in Canada], Germanic, Nordic and Latin Europe) together as one 'Western Europe/Canada' block. We then compared the performance differences among these three blocks. Following Kogut and Singh (1988) and Ronen and Shenkar (1985), this operationalization assumes that the cultural distance between the United States and the Western Europe/Canada block is closer than the distance between the United States and the Far East and Latin America blocks. These comparisons were used to test hypotheses 1 and 2.

Product complexity. Hypotheses 3 and 4 required a measure to capture the complexity of the products that export intermediaries carry. We used a five-point scale developed by Anderson and Coughlan (1987, p. 95) to approximate: (a) the amount of training manufacturers give to the intermediary; (b) the amount of training the intermediary provides its overseas customers; and (c) the amount of post-sales services required. The implication was that the more complex the products, the stronger the need for pre-sales training and post-sales service. Conversely, for commodity products, these training and service requirements would be minimal.

By itself, none of these three items covered the degree of product complexity. By combining these items into a scale with reasonable internal consistency (with a Cronbach alpha of 0.77), we were able to derive a more accurate measure of the

construct (Peng, 1998). Given that such a measure was of a continuous nature, splitting the sample by half might not meaningfully separate high-complexity products from low-complexity ones. In order to undertake a more conservative and, hence, stronger test for hypotheses 3 and 4, we divided the sample into three equal groups according to their product complexity, and compared the performance differences of the top and bottom thirds of the sample ($n = 65$ each).

FINDINGS

Since two different dependent variables were used as proxies for export performance, in essence each hypothesis was tested on two occasions. The results for tests of hypotheses 1 and 2 are reported in table II, and those for hypotheses 3 and 4 in table III.

As shown in table II, the Austrian-based hypothesis 1, which posited that export intermediary performance would increase as the cultural distance between the United States and the target country increases, was supported. In contrast, the transaction cost-based hypothesis 2 was not supported. When per capita export sales was used as the performance measure, export intermediaries specializing in

Table II. The performance implications of the choice of country markets: a test of hypotheses 1 and 2

Cultural blocks that firms specialize in	*n*	*Performance (mean and s.d.)*	t-*statistics matrix* (1)	(2)	(3)
Dependent variable 1: Per capita export sales					
(1) Western Europe/Canada[a]	33	$150,386 ($63,465)			
(2) Latin America[b]	50	$189,472 ($70,214)	1.19		
(3) Far East[c]	40	$210,654 ($74,590)	3.13*	1.33	
Dependent variable 2: Export sales margin					
(1) Western Europe/Canada	33	7.33% (6.81%)			
(2) Latin America	50	18.79% (12.45%)	1.99*		
(3) Far East	40	20.02% (9.33%)	2.35**	1.29	

Notes:
[a] The Western Europe/Canada block included the Anglo (including Canada), Germanic, Nordic and Latin Europe blocks identified by Ronen and Shenkar (1985).
[b] The Latin America block did not include Brazil, which has been identified as an outlier by Ronen and Shenkar (1985). The results did not change significantly after the Brazil group ($n = 4$) was added to this block.
[c] The Far East group did not include Japan, which has been identified as an outlier by Ronen and Shenkar (1985). Nor did it include China, whose membership in any regional cultural blocks has yet to be established. The results did not change significantly after the Japan ($n = 16$) and China ($n = 5$) groups were added to this block.
*$p < 0.05$, **$p < 0.01$, ***$p < 0.001$.

Table III. The performance implications of the choice of product markets: a test of hypotheses 3 and 4

Product complexity[a]	*n*[b]	*Performance (mean and s.d.)*	t-*statistics*
Dependent variable 1: Per capita export sales			
(1) Products with a high degree of complexity	65	\$89,901 (\$45,377)	3.35**
(2) Products with a low degree of complexity	65	\$144,471 (\$59,205)	
Dependent variable 2: Export sales margin			
(1) Products with a high degree of complexity	65	5.86% (4.29%)	6.30***
(2) Products with a low degree of complexity	65	16.41% (7.83%)	

Notes:
[a]Products' degree of complexity was obtained by a confirmatory factor analysis of three items: (i) the amount of training manufacturers give to the export intermediary; (ii) the amount of training the intermediary gives to its overseas customers; and (iii) the amount of post-sale services provided by the intermediary. Adapted from Anderson and Coughlan (1987), this measure had a Cronbach alpha of 0.77, thus indicating reasonable internal consistency. See Peng (1998) for details.
[b]We divided the total sample of 195 respondents into three equal groups according to their degree of product complexity, and compared the performance of the top and bottom third groups.
$*p < 0.05$, $**p < 0.01$, $***p < 0.001$.

Latin America and the Far East outperformed those specializing in Western Europe and Canada, which are culturally closer to the United States. The differences, however, were not very large, as evidenced by the *t*-statistics. Specifically, only the performance difference between firms specializing in the Western Europe/Canada block and those focusing on the Far East block could be established at $p < 0.05$ level. The difference between intermediaries specializing in Western Europe/Canada and Latin America was not significant. When the second dependent variable, export sales margin, was employed, the differences became stronger. Specifically, both the difference between Western Europe/Canada and Latin America and that between Western Europe/Canada and the Far East were significant. Taken together, these two tests suggested that there might be some truth in the Schumpeterian claim that specializing in more distant markets offers better performance opportunities to export intermediaries.

On the other hand, as far as product markets were concerned (table III), the transaction cost-based hypothesis 4, which suggested a negative relationship between product complexity and firm performance, was supported, and the Austrian-based hypothesis 3 did not do as well. The bottom-third group ($n = 65$) that handled products with a low degree of complexity sold nearly 61 per cent *more*, on a per capita basis, than the top-third group ($n = 65$) which specialized in products with a high degree of complexity. The difference was significant at $p <$

0.01 level. The export sales margin of the low-complexity group was nearly three times that of the high-complexity group, with a highly significant difference ($p < 0.001$). This finding is consistent with results from studies on channel integration from the manufacturers' point of view, in that manufacturers of complex products have a higher propensity to forward integrate and minimize the demand for intermediary services (Anderson and Coughlan, 1987; Lassar and Kerr, 1996; Majumdar and Ramaswamy, 1995; Rangan et al., 1993). The implication is that, for export intermediaries, it may not pay to specialize in complex, technology-intensive products, thus casting a shadow on the Austrian perspective.

Different strategic choices in country and product specialization led to different combinations of market focus. As shown in table IV, firms in the sample emerged as four groups: (1) specializing in distant markets (Far East or Latin America) and low-complexity products ($n = 41$); (2) specializing in distant markets and high-complexity products ($n = 12$); (3) specializing in nearby markets (Western Europe or Canada) and low-complexity products ($n = 10$); and (4) specializing in nearby markets and high-complexity products ($n = 17$). Consistent with the findings

Table IV. The combined effect of country and product markets on performance

Country and product market specialization	*n*	*Performance (mean and s.d.)*	t-*statistics matrix* (1)	(2)	(3)	(4)
Dependent variable 1: Per capita export sales						
(1) Firms specializing in either Far East or Latin America and low-complexity products	41	$243,210 ($58,125)				
(2) Firms specializing in either Far East or Latin America and high-complexity products	12	$169,195 ($98,237)	1.29			
(3) Firms specializing in either Western Europe or Canada and low-complexity products	10	$155,987 ($61,774)	3.49*	1.11		
(4) Firms specializing in either Western Europe or Canada and high-complexity products	17	$96,822 ($43,228)	7.23***	3.01*	2.56	
Dependent variable 2: Export sales margin						
(1) Firms specializing in either Far East or Latin America and low-complexity products	41	21.79% (6.52%)				
(2) Firms specializing in either Far East or Latin America and high-complexity products	12	14.02% (4.33%)	2.00			
(3) Firms specializing in either Western Europe or Canada and low-complexity products	10	12.83% (5.97%)	3.18*	2.14		
(4) Firms specializing in either Western Europe or Canada and high-complexity products	17	6.58% (4.21%)	6.77***	2.90*	2.62	

Note:
*$p < 0.05$, **$p < 0.01$, ***$p < 0.001$.

reported in tables II and III, firms in the first group consistently outperformed those in the fourth group in both per capita export sales and export sales margin, as evidenced by the *t*-statistics at the $p < 0.001$ level. The differences between the second/third groups and the fourth group were either insignificant or marginally significant ($p < 0.05$). It is important to note that the sample sizes for the second and third groups were small, and that findings on these groups need to be interpreted with caution. On the other hand, the differences between the first and the fourth groups, based on relatively large sample sizes, were more solid and unambiguous. These results, therefore, lead to a contingency framework taking into account different combinations of country and product market specialization, which will be discussed in the next section.

TOWARDS A CONTINGENCY FRAMEWORK

Contributions

The purpose of this study was to directly test competing hypotheses about the relationship between market choice and firm performance that were derived from the Austrian and transaction cost perspectives. Transaction cost theory has been widely employed in strategic management and international business research. The Austrian perspective, on the other hand, has yet to be extensively found in this research, although recent work on the resource-based view of the firm carries a very strong dose of the Austrian perspective (Barney, 1991). Given the increasing interest in the Austrian perspective, Hill and Deeds (1996) and Jacobson (1992) conceptually compared and contrasted the Austrian and industrial organization perspectives. Young et al. (1996) empirically tested competing hypotheses drawn from these two perspectives, and found support for the Austrian point of view. Direct tests of the Austrian and transaction cost perspectives, however, have been rare. Therefore, this study contributes to the literature by identifying an empirical context in which these two competing frameworks can be tested.

Using data from US-based export intermediaries, we found evidence supporting elements of both perspectives, while rejecting other elements. Specifically, our results show that (1) in selecting *country* markets, more distant markets may give export intermediaries better performance prospects; and that (2) in selecting *product* markets, less complex and more commodity-based products may improve the odds for high performance. As a result, our findings suggest a 2×2 contingency framework with cultural distance and product complexity as two underlying dimensions (figure 1). Export intermediaries located in cell 1, characterized by specialization in distant country markets and in low-complexity products, are more likely to obtain higher performance. Both Schumpeterian dynamics and Williamsonian considerations seem to be at work here. On the one hand, according to the Austrian perspective (hypothesis 1), distant markets offer intermediaries better chances for success since most manufacturers may not be capable of entering these markets directly. On the other hand, transaction cost theory (hypothesis 4) suggests that even for these distant markets, manufacturers of complex products still have a relatively high propensity to engage in direct export, and intermediaries will be better off if they concentrate on bringing in less complex, more commodity-based products to these markets. These results are also supported by our case studies (Peng,

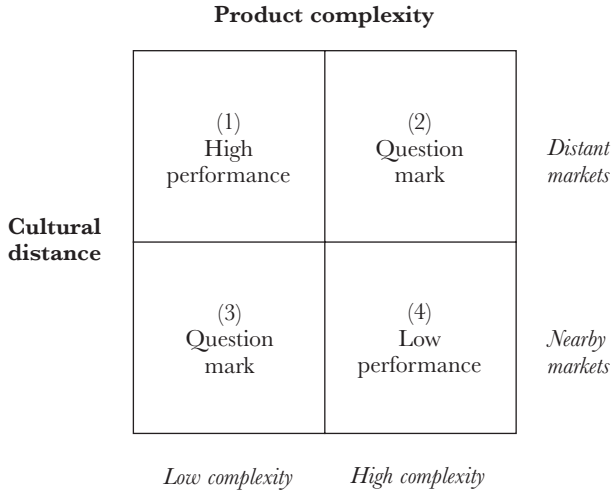

Figure 1. Market choices for export intermediaries: a contingency framework

1998), in which two of the most successful intermediaries specialized in distant markets (Japan and Russia) and both focused on low-tech, commodity-based exports (forest products and foodstuffs).

In contrast, cell 4, characterized by a short cultural distance and a high degree of product complexity, offers intermediaries the worst chance of attaining success. First, these markets are well known, thus presenting few opportunities for 'entrepreneurial discoveries' that the Austrian perspective highlights. Moreover, manufacturers of high-complexity products are likely to perceive intermediaries as an inefficient export channel choice, because of the latter's perceived inability to provide satisfactory product-specific training and post-sale services, all of which can be potential sources of transaction cost problems. For example, when exporting to Canada, high-tech manufacturers in the United States neither need export intermediaries to help them tackle such a nearby, familiar market, nor believe in an intermediary's ability to provide adequate product training and post-sale services. As a result, intermediaries specializing in both nearby markets and high-complexity products are not very likely to be successful.

In cells 2 and 3, the forces for entrepreneurial discoveries and transaction cost economizing seem to be evenly matched, and our results do not allow us to differentiate these two cells in terms of their performance prospects. Given the inconclusiveness of the present findings, we label them as 'question marks' and call for future research.

In terms of the theoretical tension between these two perspectives, this study neither solves it, nor supports any single theory. Instead, our contributions are the findings indicating that these two schools of thought are *complementary* to each other. It is the joint forces of Schumpeterian dynamics and Williamsonian considerations that result in higher performance for export intermediaries specializing in distant country markets and low-complexity product markets (cell 1). On the other hand, these two forces combine to lower the performance of firms concentrating on nearby country markets and high-complexity product markets (cell 4).

Research and Practical Implications

For researchers, the contingency framework suggests that any one-sided belief in one of these two perspectives may be unwarranted. Viewing entrepreneurial discoveries (Kirzner, 1997) or transaction cost economizing (Williamson, 1991) as the sole driver of firm performance may be capturing only one side of the same coin. Future theory-building efforts on the drivers of firm performance may need to integrate elements of both theories, together with other complementary perspectives (Barney, 1991; Peng, 1998).

For entrepreneurs in export intermediaries, this contingency framework has clear implications of 'dos' and 'don'ts'. It seems to be important to resist the temptation to specialize in complex, technology-intensive (high-tech) products, whose distribution tends to be reserved by manufacturers' own export channels. This finding is counterintuitive.[3] Given the recent advances in various high-tech industries as well as the excitement associated with these products, entrepreneurs may be tempted to bring them abroad. However, the odds against intermediaries which constantly face manufacturers' channel integration decisions seem to be significant and entrepreneurs are advised to stay clear of these products. On the other hand, focusing on commodity-based products does not have to be 'boring' and can be equally 'exciting'. Given the lack of market information in many countries, especially in distant markets, well-known commodity products in one country may be differentiated offerings commanding premium in another country, thus presenting market discovery opportunities for entrepreneurs. In other words, the winning strategy for export intermediaries may be a combination of 'be bold' (to venture to distant markets) and 'not too bold' (to specialize in low-complexity products).

Weaknesses and Future Directions

With respect to the present findings, a number of caveats must be acknowledged. First, our results are limited by the relatively simple approach we undertook, and constrained by the particular empirical setting we chose. The relationships we found were associative, but not causal. There may be other interpretations of the findings, such as a low degree of competition in some distant markets compared with developed markets in Western Europe and Canada, which may result in performance differences. To suggest that country and product market choices alone determine firm performance would be simplistic, if not foolhardy. Exceptions of successful (or unsuccessful) firms can certainly be found in hostile (or friendly) environments.

Second, the cultural blocks (Ronen and Shenkar, 1985) are a coarse-grained way of grouping countries together. The small sample size of the four European groups (including Canada) necessitated the consolidation of these groups into a large Western Europe/Canada block, which might have introduced some 'noise' in the findings. For instance, South Africa would be classified as a member of the Anglo group according to Ronen and Shenkar (1985). Our consolidated larger group conceptually would imply that Spain, originally a member of the Latin Europe block and now a member of the larger Western Europe/Canada group which includes South Africa, is closer to South Africa than to Latin America. Such a coarse-grained conceptualization of cultural distance, of course, is not without its problems.

Despite these weaknesses, this study does represent one of the first exploratory

studies that directly test competing hypotheses from two influential and often conflicting schools of thought. Future research can benefit from more sophisticated statistical analysis, larger sample size, more refined measures, and inclusion of export intermediaries from other countries. The research topic of export intermediary performance appears to be a particularly promising arena for further inquiry, since this is an area where 'entrepreneurial discovery' may be made abroad while export-related transaction costs remain high (Peng, 1998; Peng and Ilinitch, 1998). If as a consequence of this study more scholars become interested in investigating the theoretical tension between these two perspectives, then our purposes will have been well served.

CONCLUSION

Given the theoretical paradox between the Austrian and transaction cost perspectives, we have attempted to 'accept the paradox and use it constructively' (Poole and Van de Ven, 1989, p. 566). Our results indicate that both Schumpeterian dynamics and Williamsonian considerations are likely to affect the performance of export intermediaries connecting domestic producers and foreign customers. The findings lead to a 2×2 contingency framework linking these two perspectives, with one cell identified to have 'high performance', another 'low performance', and the other two 'question marks'. Since one of the hallmarks of provocative research is that it generates more questions for continued research than it answers, we conclude that both the Austrian and transaction cost perspectives are partially correct but neither of them offers a complete picture, and we further call for more sustained research efforts to engage this paradox.

NOTES

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[1] The original formulation of transaction cost theory did not focus on firm performance; rather, it focused on the selection of governance choices (Williamson, 1985). Specifically, economic organizations 'align transactions, which differ in their attributes, with governance structures, which differ in their costs and competencies, in a discriminating (mainly, transaction cost economizing) way' (Williamson, 1991, p. 79). However, the implication has a clear *performance* focus in that firms that choose the most appropriate governance structures will encounter lowest transaction costs and, hence, attain the highest performance. According to Williamson (1991, p. 75), 'in the long run . . . the best strategy [for high performance] is to organize and operate efficiently [in a transaction cost economizing way]'. The development of this theory has increasingly focused on firm performance (Williamson, 1996). While many studies in the literature took the traditional transaction cost approach by examining manufacturers' channel choices (Anderson and Coughlan, 1987; Lassar and Kerr, 1996; Majumdar and

Ramaswamy, 1995; Rangan et al., 1993), we extend the transaction cost logic by asking that, *given* manufacturers' known criteria in channel selection and *once* the governance choice in this setting is chosen (i.e. export intermediaries instead of direct export), how can export intermediaries improve their odds for success?

[2] While there are some conceptual differences between 'cultural distance' and 'psychic distance' (O'Grady and Lane, 1996), we followed previous empirical work by Barkema et al. (1996) and Kogut and Singh (1988), which used these two items interchangeably.

[3] This finding does not imply that small manufacturers of complex products such as medical instruments do not internationalize. It suggests that when these firms export, they (a) will have a higher propensity to engage in direct export; or (b), if export intermediaries are chosen, will phase out intermediaries sooner relative to their counterparts producing more commodity-based products such as wood products.

APPENDIX

Ronen and Shenkar's (1985) Cultural Blocks and Sample Sizes

(A) *Eight original cultural blocks (in alphabetical order) (141 firms) and one independent block (28 firms)*

1. Anglo (12)[a]	Australia[b]	Canada	Ireland
	New Zealand	South Africa	United Kingdom
	United States		
2. Arab (16)	Abu-Dhabi	Bahrain	Kuwait
	Oman	Saudi Arabia	United Arab Emirates
3. Far East (40)	Hong Kong	Indonesia	Malaysia
	Philippines	Singapore	Taiwan
	Thailand	Vietnam	
4. Germanic (9)	Austria	Germany	Switzerland
5. Latin	Argentina	Chile	Colombia
America (50)	Mexico	Peru	Venezuela
6. Latin	Belgium	France	Italy
Europe (8)	Portugal	Spain	
7. Near East (2)	Greece	Iran	Turkey
8. Nordic (4)	Denmark	Finland	Norway
	Sweden		
9. Independent (28)			
Brazil (4)			
China[c] (5)			
India (3)			
Israel (0)			
Japan (16)			

(B) *Two new cultural blocks[d] (20 firms)*

(10) Africa (10)	Sub-Sahara African countries (except South Africa)		
(11) Eastern	Albania	Bulgaria	Czech Republic
Europe (10)	Hungary	Poland	Romania
	Slovakia	Counties of the former USSR and Yugoslavia	

(C) *No country specialization (6 firms)*

Total 195

Notes:
[a]The number is the number of firms specializing in these blocks in the sample.
[b]This complete list of countries in each block was provided by Ronen and Shenkar (1985). It is included here for illustrative purposes, and does not imply that there are firms in the sample that specialize in all of the listed countries.
[c]Instead of being regarded as a member of the Far East block, China was added to the independent group (personal communication with Oded Shenkar, October 1996).
[d]These two new blocks were added per personal communication with Oded Shenkar (October 1996).

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