

Behind Intermediary Performance in Export Trade: Transactions, Agents, and Resources

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Integrating transaction cost, agency, and resource-based theories, this study extends the work of Peng and Ilinitch (1998) by undertaking the first empirical efforts to explore the determinants of export intermediary performance. We suggest that given the transaction cost constraints and

principal-agent conflicts, export intermediaries' performance depends on their possession of valuable, unique, and hard-to-imitate resources which help minimize their clients' transaction and agency costs. Survey results from 166 firms largely support our hypotheses.

While a wealth of research exists on the performance of firms that export their own products (Aaby and Slater, 1989; Cavusgil and Zou, 1994; Leonidou and Katsikeas, 1996), no em-

pirical study has yet investigated the determinants of the performance of intermediaries in export trade. As entrepreneurial firms, export intermediaries assist inexperienced exporters in break-

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ing into overseas markets and experienced exporters (including multinational corporations) in entering unfamiliar countries. They are defined as “specialist firms that function as export departments of several manufacturers in noncompetitive lines” (Root, 1994, p. 102). Although an emerging body of research suggests that intermediaries may impact the performance of exporters by enabling the latter to reach a wider range of foreign markets (Ilinitch, Peng, Eastin, and Paun, 1994), the literature has largely focused on firms that export their own products. As a result, a more rigorous understanding of the determinants of export intermediary performance could provide one of the critical “missing links” in existing research (Peng and Ilinitch, 1998, p. 609).¹

In an earlier article published in this *Journal*, we argued that a better understanding of what is behind export intermediary performance may benefit researchers, practitioners, and policymakers (Peng and Ilinitch, 1998, pp. 617-8). First, **researchers** may find such knowledge helpful in addressing unanswered questions, such as why the linear, stage-like progression in internationalization, widely portrayed in the literature, “may not always occur” (Leonidou and Katsikeas, 1996, p. 541). Focusing on export intermediaries may help solve this puzzle because intermediaries may facilitate a “quantum leap” in export involvement for some manufacturers (Ilinitch, et al., 1994). At the same time, some intermediaries may have the incentive to inhibit manufacturers’ advancement along the export development path in order to preserve intermediation profits. However, aggressively practicing this strategy may backfire, because it may scare away existing and potential clients. Therefore, how intermediaries can enhance their

own performance without alienating their clients remains an important but unexplored question. Second, for export intermediary **practitioners**, knowing what works and what does not enables them to craft better strategies. Such knowledge may also help their client firms to make more informed channel choice decisions. Finally, knowing the determinants of export intermediary performance may help **policymakers** enhance the effectiveness of government export promotion efforts. For example, the Export Trading Company Act of 1982, much-heralded as a stimulant for more U.S. exports but widely regarded as a failure in practice, might have been more successful had more solid knowledge on export intermediary performance been available (Peng, 1998).

Motivated by these scholarly, practical, and policy considerations, the present article extends the earlier work of Peng and Ilinitch (1998) by undertaking the first efforts to empirically explore the performance determinants of intermediary firms in export trade. We accomplish this by drawing on transaction cost, agency, and resource-based theories. We suggest that, given the transaction cost constraints and the principal-agent conflicts, export intermediaries’ performance depends on their possession of valuable, unique, and hard-to-imitate resources which help minimize their clients’ transaction and agency costs. Our empirical efforts center on the identification of the extent to which these resources are beneficial.

EXPORT INTERMEDIARIES

Intermediaries perform an important “middleman” function by linking individuals and organizations that otherwise would not have been connected. Many smaller firms are intimidated by the

challenges associated with exporting. Despite having more resources, many larger firms may be unwilling to commit to newer, nonessential markets. In such cases, export intermediaries may emerge as indirect distribution channels connecting domestic firms and foreign customers. A number of different “intermediaries” exist, ranging from freight forwarders, customs brokers, and trading companies (all in the exporting country) to manufacturers’ representatives and distributors (in the importing country). Our research focuses on “middlemen” located in the exporting country, who help exporters find customers or make sales for them – in short, “export intermediaries.” Moreover, we follow Peng (1998, p. 18) to limit our empirical attention to intermediaries which *directly* engage in export sales transactions. In the United States, these are called export management companies (EMCs) and export trading companies (ETCs),² which collectively handled approximately 5-10% of total U.S. exports during the 1990s (Peng, 1998; Perry, 1992; Root, 1994).

THEORETICAL BACKGROUND

Three theories form the building blocks for this study. We start with transaction cost theory, which explains why exporters may choose intermediaries in the first place. We then turn to agency theory to understand the costs and benefits associated with intermediaries. Finally, resource-based theory provides insights into why some intermediaries outperform others.

Transaction Cost Theory

Transaction cost theory is concerned with how firms make governance choices, depending on which choice minimizes transaction costs. It focuses

on the *ex post* costs associated with maladaptation and haggling, as well as the governance costs of maintaining the chosen contractual relationship (Williamson, 1985, 1988). Such costs are likely to arise due to the bounded rationality of decision makers, uncertainty and complexity of the environment, and asymmetric distribution of information between parties to an exchange. Because these costs are likely to be nontrivial when transacting across borders, most international business activities are believed to carry a transaction cost-minimizing property, and export channels, in particular, are chosen “in order to minimize the cost of achieving export sales” (Beamish, et al., 1999, p. 39). When exporting, manufacturers essentially have two channel options: (1) direct export, or (2) indirect export via export intermediaries. Therefore, to ensure that exporters choose the second choice, export intermediaries must lower their clients’ export-related transaction costs relative to those of the first choice. Their performance, thus, depends on how successful they are in lowering these costs.

Agency Theory

In much the same way that transaction cost theory emphasizes the firm-market conflict,³ agency theory focuses on the principal-agent conflict (Jensen and Meckling, 1976). While principals (exporters) may want to maximize their export performance through the use of agents, agents (intermediaries) may be interested in extracting a maximum fee for their services with minimal efforts. In addition, agents may misrepresent their skills and knowledge to principals. These problems arise from the principals’ inability to verify the agents’ behavior and skills *ex ante*. To combat these problems, principals can either reduce

the information asymmetry by investing in monitoring systems (e.g., hierarchy) to constrain agents' opportunism or structure agent incentives in a way that both parties' interests are aligned. Such activities entail what are called agency costs, which are the *ex ante* costs of "monitoring expenditures of the principal, the bonding expenditures by the agent, and the residual loss" (Jensen and Meckling, 1976, p. 308). Theoretically, the best-performing intermediaries are likely to be those who can minimize these agency costs for their clients, as opposed to those who can not, because the principals are more likely to choose the former over the latter.

Resource-Based Theory

Resource-based theory suggests that a firm's competitive advantage is a function of its valuable, rare, and inimitable resources (Barney, 1991, 1997).⁴ Such resources are often intangible, embedded, and knowledge-based. In the case of export intermediaries, such skills as market knowledge and negotiation ability may play an important role in minimizing the search and negotiation costs associated with export transactions. Additionally, some firms may have unique financial resources which allow them to more successfully bond clients by taking title to goods and thus reducing client risk. In a nutshell, this theory suggests that the performance of export intermediaries depends on whether they can acquire and deploy resources in a way that cannot be easily imitated. Otherwise, manufacturers may attempt to develop export capabilities in-house. Indeed, many large manufacturers have done that, forcing intermediaries to focus on smaller firms that are unable to acquire such capabilities, or on larger firms' mar-

ginal markets which have yet to command their in-house channels' attention.

Integration

Although each of these theories illustrates one aspect of the export intermediary performance puzzle, all three seem necessary to paint a complete picture. Transaction cost theory is noteworthy for its analytical rigor in predicting governance choices. Agency theory excels in unpacking the underlying conflict between principals and agents. However, both theories address the issue from the principals' standpoint, and most transaction cost- and agency-based research investigates how manufacturers make channel choice decisions (Aulakh and Kotabe, 1997; Campa and Guillen, 1999). Such research, by allowing little room for strategic behavior by agents, typically fails to consider that agents are not passive entities merely responding to principals' unilateral actions. Instead, agents such as intermediaries can also employ entrepreneurial strategies and organizational capabilities that can influence the relationship. Resource-based theory, by regarding intermediaries as the focal firms, focuses on how such firms use their unique endowments of resources to lower transaction and agency costs for their clients and thus enhance their own performance. However, resource-based theory has been criticized that "at some level, everything in the firm can become a resource and hence resources lose explanatory power" (Conner, 1991, p. 145). Therefore, it seems that an integration of these three theories may yield richer insights.

Our theoretical integration suggests that the *nature* of the export intermediary firm is that of an agent whose resources help lower export-related *ex ante* agency costs and *ex post* transaction

costs for its principals (Peng, 1998, p. 67). The key question then becomes: What is the optimal strategy for intermediaries, given the transaction cost constraints and principal-agent conflicts outlined above? The next two sections address this question, from both the exporter's and intermediary's standpoints.

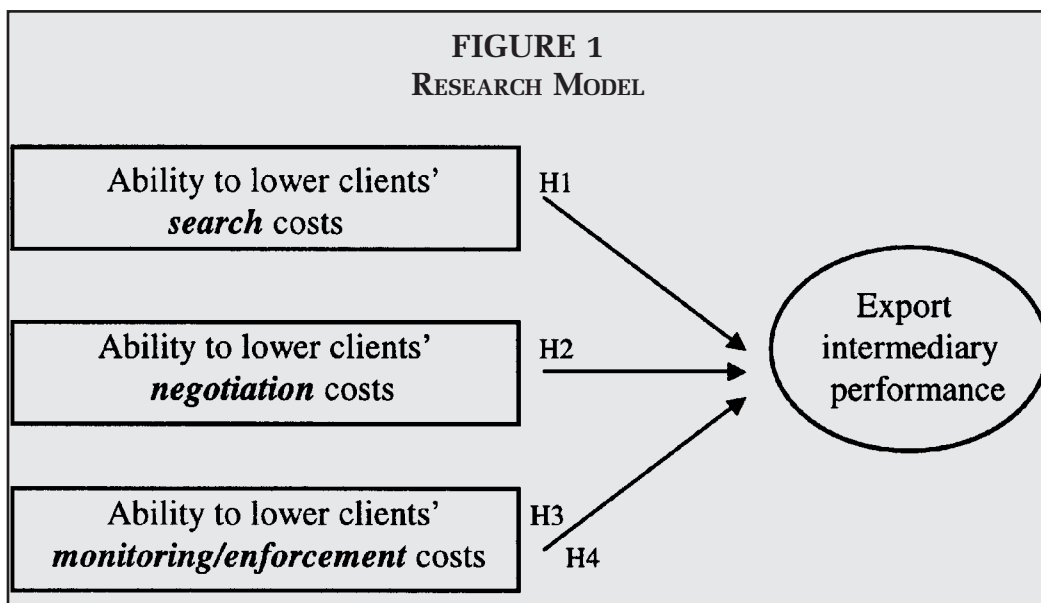
THE EXPORTER'S STANDPOINT

Having decided to use intermediaries, the exporter is interested in selecting a particular middleman which can minimize export-related transaction and agency costs. If the export intermediary does not perform satisfactorily, the exporter can threaten to (1) discontinue the current intermediary and select a new, better-performing one (which could be based abroad); (2) stop using intermediaries and perform the export tasks by itself; and/or (3) quit exporting. The first threat may be relatively more viable, because there are other intermediaries competing to win the export contract. However, a key behavioral assumption of transaction cost theory is that while markets may be competitive, they are also imperfect due to bounded rationality and opportunism (Williamson, 1985). Specifically, switching intermediaries is likely to be costly and uncertain, in light of the difficulty to exit legally binding agreements and find capable new intermediaries. If an exporter is unable to identify how its first-choice intermediary can add value, then there is little reason to ascertain, in the absence of knowledge on what drives intermediary performance, that the next intermediary could do better. With a typical export distribution contract lasting two to three years (Haigh, 1994), the principal may not know whether the new intermediary is any better for a long time.

The second threat is essentially a threat to vertically integrate (or internalize) the export channel function. While in theory it is possible, in practice, it requires that exporters overcome substantial obstacles. Many small exporters find the start-up challenges to be too formidable, because they involve nontrivial up-front costs of establishing in-house channels and developing a knowledge base of overseas markets, as well as the costs associated with writing contracts and developing trust and credibility with foreign customers (Ilinitch et al, 1994). Thus, while this threat may be credible for larger manufacturers, it may be simply "irrelevant" for many small exporters which "cannot consider vertical integration as a feasible alternative" (Heide and John, 1988, p. 21). It may also be unjustifiable for larger firms' newer, unproven markets.

By default, the last "relevant" option for many small exporters is simply to quit exporting. Likewise, many large firms are reluctant to explore new markets. However, in today's global economy, overseas markets, despite their risks, are increasingly difficult to ignore. Thus, for firms interested in exporting, none of these options is appealing. Therefore, if they can select appropriate intermediaries in the first place, then they could enhance their odds for export success (at least in the short run).⁵

Overall, through export intermediaries, exporters gain access to international markets while not having to incur the up-front costs associated with searching for new markets, negotiating contracts, and monitoring those contracts to ensure performance. In essence, the exporter transfers those responsibilities to an agent, which we turn to next.



THE INTERMEDIARY'S PERSPECTIVE

Drawing on transaction cost, agency, and resource-based theories, we suggest that export-related costs can be decomposed into three key components: (1) search costs, (2) negotiation costs, and (3) monitoring/enforcement costs. Accordingly, we derive a research model (Figure 1), which posits that as long as the export intermediary possesses resources that will help exporters lower export-related costs along these three dimensions, its services will be sought, its survival viable, and its success likely.

Search Cost Minimizing

Search costs typically involve the *ex ante* costs of acquiring knowledge through market research and planning. Acquiring such knowledge without external help can be costly and time-consuming (Eriksson, et al., 1997). High search costs have not only kept many would-be exporters from expanding internationally, but may also lead to inadequate search prior to exporting, which in turn increases the probability of ex-

port failure for exporters. This is where export intermediaries can help, by providing knowledge about foreign markets, experience with export processes, and familiarity with international marketing strategies. Moreover, intermediaries can leverage such knowledge across multiple client firms and products. Thus, there are economies of scale and scope in overseas distribution that individual exporters cannot match. In the case of the best export intermediaries, their superior knowledge and their ability to leverage this knowledge may be regarded as a unique, intangible resource that cannot be easily replicated by competing intermediaries and/or inexperienced exporters. Therefore:

Hypothesis 1: The greater the export intermediary's knowledge of foreign markets and export processes, the stronger its performance.

Negotiation Cost Minimizing

Negotiation costs not only include the direct costs of travel and personnel, but also the *ex ante* costs of potential hazard

when dealing with unfamiliar foreign customers (Tung, 1988; Weiss, 1994). In such negotiations, exporters may find their lack of experience in foreign markets to be compounded by their lack of understanding of the intricacies of culturally derived negotiation norms (Lewicki, et al., 1994). Even when they try to handle the negotiations by themselves, they may find themselves parties to bad deals. In contrast, export intermediaries can often lower negotiation costs because of their expertise. Other things being equal, they may help produce a better deal for their clients. Therefore, by possessing an intangible resource embodied in the ability to handle export negotiations, intermediaries can increase their odds of being selected. Thus:

Hypothesis 2: The better the intermediary's ability to handle export negotiations, the stronger its performance.

Monitoring/Enforcement Cost Minimizing

Once contracts are signed, parties are concerned with the *ex post* monitoring and enforcement of contractual obligations. Nonperformance may result from foreign buyers' misunderstanding of contract specifics due to cultural differences, or from their deliberate opportunistic behavior (Williamson, 1985). Exporters directly dealing with foreign buyers must be constantly on guard for such hazards. Thus, intermediaries that can help lower these costs will be sought.

However, for the same reason monitoring and enforcement costs may be high for firms engaging in direct export, these costs may also be daunting when employing intermediaries. As agents, export intermediaries may have an incen-

tive to behave in ways not always in the best interest of principals, such as monopolizing the international communication, not paying enough attention to exporters' needs, or simply failing to perform as promised. As a result, exporters need to compare the monitoring/enforcement costs of going through intermediaries vis-à-vis the monitoring/enforcement costs of going direct to market. The challenge for intermediaries, therefore, is how to ensure exporters that the monitoring/enforcement costs of using intermediary services are lower than these costs that exporters would have incurred via direct export.

Since many intermediary activities are not directly verifiable, a key strategy is to use observable actions to **signal** to principals that intermediaries are honest and trustworthy (Spence, 1973). Therefore, the best-performing intermediaries are likely to be those with the best signaling capabilities. This can be accomplished through outcome and/or behavioral means. An **outcome**-based signal is to take title to the goods.⁶ Inexperienced exporters may have a difficult time monitoring the efforts of intermediaries. Therefore, exporters may prefer to work with intermediaries willing to take possession of the goods, in effect, bonding the exporters against financial loss by transferring that risk to intermediaries (Jensen and Meckling, 1976). Such an arrangement solves a major problem inherent in a principal-agent relationship by achieving the complete alignment of the interests of both parties. By transforming intermediaries from agents to principals, exporters no longer need to incur expensive monitoring and enforcement costs. Since not all intermediaries are able or willing to take title, then intermediaries which agree to do so send an unambiguous signal to potential cli-

ents about their commitment to the relationship. Thus, such a signal may be regarded as another critical resource that has important performance implications. Hence:

Hypothesis 3: The better the intermediary's ability to take title to goods, the stronger its performance.

In addition, a *behavioral* signal that intermediaries can send to exporters is the choice of product specialization. A key decision is whether to concentrate on more complex, technology-intensive products or simpler, commodity-based ones (Peng, Hill, and Wang, 2000). Transaction cost theory posits that since the distribution of complex products is more likely to require significant asset-specific investments such as specialized sales force training and after-sales services, these products would call for more channel integration (Williamson, 1985). This is because intermediaries may be unwilling to make such asset-specific investments without an immediate and concrete payoff. Even if some intermediaries were willing to take on these tasks, their number would likely be limited, thereby presenting a "small numbers" problem which could make manufacturers vulnerable in case of intermediary opportunism. This asset-specificity-based proposition has been supported by numerous studies, documenting that manufacturers of complex products are more likely to forward integrate in order to exercise greater control in distribution (Anderson and Coughlan, 1987; Aulakh and Kotabe, 1997; Campa and Guillen, 1999).

In contrast, commodity transactions are based primarily on price, and involve little product-specific knowledge. Moreover, the nature of these products enables a broad range of intermediaries to

compete for the export contract. Therefore, transactions involving these products are less costly to monitor, and contracts are easier to enforce. Under these circumstances, the best strategy for intermediaries may be to avoid complex, technology-oriented products and, instead, send an unambiguous signal to exporters by focusing on relatively undifferentiated, commodity products (Peng, Hill, and Wang, 2000).⁷ Thus:

Hypothesis 4: The greater the intermediary's involvement with commodity products, the stronger its performance.

METHODOLOGY

Design and Implementation

Our study, a mail survey, had substantial qualitative antecedents with six case studies published elsewhere (Peng, 1998). Following the total design approach (Dillman, 1978), we first pretested a questionnaire with ten practitioners and then mailed the survey in two rounds. The population was obtained from the "Trading Companies" section in the *Export Yellow Pages* published by the U.S. Department of Commerce. We randomly selected one-third (1,046) of these firms out of a total of 3,138. The majority of the contact persons listed were owners and managers. The case studies and pretests suggested that since these firms were usually very small, 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. Thus, we only sought one respondent per firm. There were 131 cases of undeliverable addresses, reducing the effective sample to 915. Responses came from

195 firms (21% response rate). The mean size of the respondent firms was 6.77 individuals (involving both owners and employees), with a standard deviation of 3.41. Respondents included 84% owners and 12% managers. Overall, the small size of these firms and the level of respondents gave us confidence in our single informant method.

To check nonresponse bias, we followed Armstrong and Overton (1977) by dividing the returned surveys into four equal groups based on the chronological order of responses. Chi-square tests were used to determine the differences between the first and last groups in terms of (1) firm age; (2) number of people; (3) total export sales; (4) type of clients;⁸ (5) average export sales margin; (6) percentage calling their firms EMCs (as opposed to ETCs); and (7) percentage specializing in commodities. No significant difference was found, thus implying little nonresponse bias. In addition, the demographics of our respondent firms (see Peng, Hill, and Wang, 2000, p. 173, Table 1) appeared to be broadly consistent with those obtained in surveys in the 1970s (Brasch, 1978) and 1980s (Bello and Williamson, 1985), presenting few surprises or anomalies.

Measures

Dependent Variables. Since there is no uniform definition of export performance, multiple measures tapping into profitability, sales, and strategic dimensions are often necessary (Aaby and Slater, 1989; Shoham, 1998; Zou, Taylor, and Osland, 1998). We explored the *profitability* and *sales* dimensions via two objective measures, net export sales margin and per capita export sales, respectively.⁹ Net export sales margin, measured by the ratio of export profits over export earnings, was extensively

used as a major indicator of the firm's financial performance (Bilkey, 1982; Madsen, 1987). Although some studies used total export sales (Beamish, et al., 1999) as a performance measure, we believed that, in light of the small size of export intermediaries, per capita export sales would be a better measure of overall sales productivity which controlled firm size. In terms of the *strategic* dimension of performance, we followed Cavusgil and Zou (1994) to ask respondents to subjectively rate their firms' performance, on a 1-5 scale, in comparison with the top-three competitors they identified (see Appendix).

Although these measures were largely developed in a manufacturing context, our case studies and pretests suggested that they were also extensively used by export intermediaries. However, given the lack of prior research, we were unable to follow Cavusgil and Zou (1994) to create a composite performance measure by assigning weights to these different measures. Instead, these three measures were used separately. While a one-year snapshot may not be an accurate reflection of overall firm performance, beyond the past two years the reliability of self-reported data may become questionable. Therefore, we sought information on firm performance for the two most recent years, which was then averaged. However, we had to delete 29 firms since they were founded during the most recent two years. Thus, our final sample was reduced to 166 firms.

Independent Variables. Most of our measures had been validated previously in the literature. Although these measures were typically employed to investigate manufacturers' export strategy, we believed that these measures, with necessary modifications, could be plausibly adapted for this study. This was because

TABLE 1
FACTOR MATRIX

N = 166	Factor 1	Factor 2	Factor 3	Factor 4
H1. Knowledge				
1. Respondent's export experience	.77*	.32	.06	.10
2. Top-3 managers' export experience	.73	.35	.01	-.07
3. % of foreign-born personnel	.61	.17	.18	.02
4. Top-3 managers' foreign travel frequency	.67	.21	.23	.05
5. % of multilingual personnel	.84	.42	.08	.12
6. The firm's overseas connections	.59	.34	-.07	.08
7. The firm's industry experience	.72	-.04	.04	.02
8. Top-3 managers' industry experience	.91	.07	.03	-.29
H2. Negotiation				
1. Skills	.27	.87	.21	.01
2. Frequency	.04	.62	.02	.13
H3. Title				
1. Willingness	-.02	.04	.91	.03
2. Ability	.11	.07	.87	.05
H4. Specialization				
1. Training provided by manufacturers	.01	.09	-.11	.81
2. Training provided to foreign customers	.15	.23	.20	.78
3. Amount of after-sales services	.17	.01	.04	.67
<i>Alpha</i>	.89	.72	.88	.77
Eigen value	4.23	1.32	4.22	3.91
% of variance explained	24.91	9.35	15.66	8.91
Cumulative % of variance explained	24.91	34.26	49.92	58.83
* Boldface indicates items that load on factors				

these variables were not only suggested by theory but also supported by our qualitative work. Hypothesis 1 focused on knowledge of foreign markets and export processes. A multidimensional approach was employed to develop a scale (see Appendix). We sought information on (1) the export experience of key decision

makers; (2) their experience in foreign cultures measured by place of birth,¹⁰ language ability, and travel frequency; and (3) their experience in the particular industry. Most of these measures were used by Bilkey (1982), Cavusgil and Zou (1994), and Eriksson and colleagues (1997).

TABLE 2
BASIC STATISTICS

N = 166	Means								
	(S.D.)	1	2	3	4	5	6	7	8
1. Knowledge	3.28 (.95)								
2. Negotiation	3.13 (.74)	.31*							
3. Title	3.11 (.80)	.13	.23						
4. Specialization	.50 (.48)	.24	-.06	.09					
5. Size	.30 (1.00)	.11	.10	.10	.05				
6. Age	9.43 (5.62)	.29	.18	.21	.06	.32**			
7. Sales margin	.14 (.16)	.31*	.25*	.20	.19	.07	.21		
8. Per capita sales	.18 (.25)	.32	.12	.34**	.20	.18	.15	.26*	
9. Self-rated performance	3.53 (1.09)	.51***	.54***	.46***	.22	.20	.26*	.16	.21

* $p < 0.05$
** $p < 0.01$
*** $p < 0.001$

Negotiation ability (Hypothesis 2) was decomposed into two key dimensions. Extending Tung (1988) and Weiss (1994), we asked respondents to indicate, on a 1-5 scale, (1) their negotiation ability and (2) frequency,¹¹ when compared with their top-three competitors. To operationalize Hypothesis 3 (taking title), we asked respondents to compare their firm with its top-three competitors, indicating whether it is (a) more willing and (b) better able to take title to the goods. For Hypothesis 4 (commodity orientation), we used a five-point scale validated by Anderson and Coughlan (1987) and Cavusgil and Zou (1994) to capture (1) the amount of training manufacturers provide to the intermediary; (2) the amount of training the intermediary provides its overseas customers; and (3) the amount of after-sales services required.¹² The rationale was that the more complex the products (which tend to be manufactured goods), the stronger the need for pre-sales training and after-sales services. Conversely, for commodity products (which may be agricultural/mineral

products), training and service requirements would be minimal (Peng, Hill, and Wang, 2000).

Control Variables. Firm size and age were controlled by total export sales (million dollars) and the year of founding, respectively.

Data Analyses

All data analyses reported in Tables 1-3 were based on the reduced sample of 166 firms. First, following Cavusgil and Zou (1994), we undertook an oblique rotated factor analysis, which not only makes the factors more interpretable but also improves the conceptual clarity of the factors (Kleinbaum, et al., 1988). Shown in Table 1, all the multi-item scales showed reasonable internal consistency, as evidenced by the *alpha* scores of 0.89, 0.72, 0.88, and 0.77, all of which were above the minimum benchmark of 0.70. The four-factor solution accounted for 58.83% of the variance and represented all the derived factors with eigenvalues greater than one. Basic statistics are presented in Table 2.

TABLE 3
REGRESSION RESULTS

N = 166 (expected sign)	(1) Sales margin		(2) Per Capita Sales		(3) Self-rated Performance	
	β	<i>t</i>	β	<i>t</i>	β	<i>t</i>
H1. Knowledge (+)	.31	6.58**	.19	3.59**	.56	4.77***
H2. Negotiation (+)	.25	1.04	.29	2.38*	.18	.89
H3. Title (+)	.30	4.47***	.21	5.31***	.67	7.53***
H4. Specialization (+)	.43	3.51***	.31	2.56**	.41	5.08***
Size	.11	.61	.09	1.04	.05	1.36
Age	.20	3.33**	.19	.92	.13	.91
Adjusted R ²	.44		.51		.58	
F-value	2.26**		4.71***		6.01***	

* $p < 0.05$
 ** $p < 0.01$
 *** $p < 0.001$

We then employed multiple regression analyses, which were widely used in export research (Leonidou and Katsikeas, 1996, p. 534). Choosing this route rather than a causal modeling technique such as LISREL seemed more straightforward in terms of results interpretation as well as more appropriate for the task, given the exploratory nature of this research.¹³

FINDINGS

Shown in Table 3, Hypothesis 1, the impact of export knowledge on intermediary performance, received strong support. The coefficients were significant for all dependent variables. Hypothesis 2, the impact of negotiation ability on agent performance, received mixed support. When per capita sales was used as the dependent variable, this hypothesis performed well, receiving significant support ($\beta = 0.29, p < 0.05$). However, the results were not stable when the other two dependent variables were employed, whereby no support was found.

Hypothesis 3, the impact of the ability to take title to goods, obtained fairly strong support. For all three dependent variables, the coefficients were significant. Finally, Hypothesis 4, the impact of a commodity products focus on intermediary performance, was strongly supported on all three occasions.

Overall, the hypotheses performed satisfactorily in all three models, which explained between 44% and 58% of the variance. Both objective performance measures were correlated with each other (0.26, $p < 0.05$), but not with the subjective measure, suggesting that the objective and subjective measures tapped into different dimensions of performance (Shoham, 1998; Zou, et al., 1998). Specifically, per capita sales tends to have a sales focus, while sales margin focuses on bottom line profitability. Subjectively rated overall performance could also be tapping into other dimensions such as customer satisfaction. This may help explain why negotiation abil-

ity has a significant impact on per capita sales (but not on margin or overall performance), because negotiation is primarily focused on making the sale rather than the overall bottom line.

While each of the four capabilities was found to be significant (at least once), their impact was not equal. The contributions of export knowledge and taking title outshaded the impact of product specialization and negotiation ability. Specifically, the benefit of increasing one standard deviation above the mean in export knowledge and taking title would provide approximately the same level of performance increase to the export intermediary. Both means were approximately 3 with a standard deviation of less than 1, and both coefficient estimates were approximately 0.3 in Model 1, 0.2 in Model 2, and 0.6 in Model 3. In comparison, the impact of improving product specialization by one standard deviation above the mean would be only half as much, as evidenced by a coefficient estimate of approximately 0.4 with a mean of 0.5 and a standard deviation of 0.5. Finally, the impact of negotiation ability, with a mean of 3 and a standard deviation of 0.75, was unstable. These findings have important implications for intermediaries which need to channel their limited resources into certain areas for capability development.

DISCUSSION

Contributions

This study makes three contributions. First, it *theoretically* integrates three complementary perspectives. Although transaction cost and agency theories have clearly specified the relationship between manufacturers and agents, they have been criticized for being too narrow, focusing only on the principals'

standpoint. On the other hand, the resource-based view has been criticized as being too broad. Often resources cannot be clearly described, let alone accurately measured. Here in the context of intermediary performance in export trade, we have identified a context in which these three theories combine to suggest an empirically falsifiable model (Peng, 1998). Specifically, transaction cost and agency theories may "inform the generic decision [of governance choices] . . . while [resource-based] competence brings in *particulars*" (Williamson, 1999, p. 1097, original emphasis). What we have done in this study is to use transaction cost and agency theories as the bedrock of the empirical context, while allowing for resource-based hypotheses to emerge. Therefore, one can argue that the resource-based view provides an important solution to a transaction cost and agency theory problem (Peng and Wang, 2001).

Second, this study contributes to the *empirical* literature focusing on these three theories, which are regarded as three of the most difficult-to-operationalize theories in strategy research (Godfrey and Hill, 1995). It supports the resource-based view in that the firm can be conceptualized as an embodiment of knowledge. As a hard-to-imitate asset, such knowledge cannot be quickly replicated or acquired, thus giving intermediaries which possess it an opportunity to "rent" it out (Chi, 1994). Overall, we have demonstrated that the relative performance of intermediaries in the presence of positive transaction and agency costs is a function of their hazard mitigating capabilities (Peng and Wang, 2001).¹⁴

Finally, this study also contributes to the *extant* literature on channel choice and export strategy. While most existing

research concentrates on the manufacturers' standpoint, we directly answer the important but unexplored question raised by Peng and Ilinitch (1998, p. 615), "What determines the performance of export intermediary firms?" We found that intermediaries' performance not only depends on their ability to provide knowledge-based search and negotiation services more efficiently, but also depends on the outcome- and/or behavioral-based signals they send to exporters. These signals can help exporters identify honest and capable intermediaries from those who are likely to be opportunistic and incapable. While our study focuses on the intermediaries' standpoint, it is also important to exporters, because the results show that intermediaries may fare best when they keep exporters' interests in mind.

Overall, our contributions lie in the *theoretical* integration of transaction cost, agency, and resource-based theories grounded in the context of export trade, and the *empirical* answer of the previously unexplored question of export intermediary performance raised by Peng and Ilinitch (1998).

Practical Implications

Current and would-be export intermediaries can benefit from this study, according to an editorial of the *Exporter* magazine which featured our results (Stroh, 1996). Hard-to-imitate resources, such as export knowledge and financial abilities, appear to be key factors behind export intermediary success, although developing such resources takes a long time. Intermediaries without substantial export experience and financial strength could face a severe disadvantage. Similarly, our results suggest that intermediaries should focus on relatively simple, commodity products rather than high-

tech, differentiated products. The odds against intermediaries who specialize in complex products seem to be significant. On the other hand, focusing on commodity products does not have to be "boring" and can be equally "exciting." Given the extensive information asymmetries across different countries, well-known commodity products in one country may be differentiated offerings commanding premium in another country, thus presenting market discovery opportunities for entrepreneurial intermediaries.

Finally, manufacturing executives and policymakers may benefit from our findings. Knowing what determines the performance of export intermediaries will help make the intermediary selection process less risky. In particular, while intermediaries' search and negotiation abilities may be difficult to verify (other than examining their track record), whether they are willing to take title and specialize in commodity products is much more observable for exporters. For government export promotion agencies, more attention to the financing needs of intermediaries seems urgently warranted, in light of the importance of intermediaries' ability to taking title to goods.

Limitations and Future Directions

The first limitation of this study is that it is empirically difficult to demonstrate whether the principal's export performance is actually improved by employing intermediaries. It originates from the well-known transaction cost paradox of trying to impute performance implications from *observed* governance choices (e.g., indirect export), whereby the performance from the unchosen governance choice (e.g., direct export) is, by definition, unknown (Masten, 1993). Future

studies may embrace two approaches. The first is to focus on the transaction as the unit of analysis, i.e., different export ventures within the firm (Cavusgil and Zou, 1994). Another possibility is to employ a matched-sample design, comparing and contrasting the performance of two samples of comparable exporters, one using export intermediaries and the other adopting a direct export strategy.

Second, this study is vulnerable to all the standard criticisms leveled at survey research, which is the "most common method" in export strategy studies (Leonidou and Katsikeas, 1996: 531). To check for potential common method bias, we split the sample into two halves by firm size and age, and ran the dependent variables from one half with the independent variables from another. The results were similar to the findings reported, thus indicating little common method variance. Despite potential social desirability bias, our qualitative work suggested that this inquiry, although probing proprietary information, was not thought to be so sensitive that would trigger a response to present the respondent firm in a favorable light. The candor of the case study and pretest participants and the enthusiasm of the export community for our findings (Stroh, 1996) seemed to support this view. Moreover, our case studies (Peng, 1998) allowed for an independent check on the plausibility of the findings.

A further limitation is the lack of support for Hypothesis 2. One explanation is that the factor score for this construct was based on a two-item measure, which might not be able to fully capture the complexity of this construct. Moreover, it correlated 0.31 ($p < 0.05$) with export knowledge (Table 2), which in a regression context, could cause it to be less significant due to its relative inclusion of

few factors compared to the knowledge factor and the "added last" nature of *t* tests.

In addition, surveying exporters (Haigh, 1994) and exporter-intermediary dyads (Ross, et al., 1997) as well as adding overseas customers (Katsikeas and Leonidou, 1996), rather than simply focusing on intermediaries, may generate new insights. Additionally, it would be interesting to determine whether the same model holds for non-U.S.-based intermediaries. Finally, the manufacturer-intermediary dynamics is not only governed by strictly economic parameters, but also by behavioral concerns, such as satisfaction with the relationship (Shipley and Prinja, 1988), the risk involved (Cavusgil and Yavas, 1987), and the parties' reputation (Katsikeas and Leonidou, 1996). Therefore, our "cost-based" perspective may need to be supplemented with a more behaviorally oriented approach (Leonidou and Kaleka, 1998) in future research.

CONCLUSION

Trading across borders, export intermediaries have played an entrepreneurial role behind the internationalization process of many exporters. On one hand, these entrepreneurial firms may become more valuable as more and more companies venture abroad. At the same time, these middlemen firms live in an increasingly precarious world as information asymmetries across countries are rapidly reduced through the Internet and e-commerce. Historically, intermediaries as an organizational form have repeatedly risen to the occasion by transforming themselves and maintaining their edge in global trade. Knowing more about whether and how they can do this in the new millennium will not only enhance the integration of major theories,

but will also provide a firmer basis for our knowledge about the intriguing phenomenon of intermediation in export trade.

NOTES

1. Aaby and Slater (1989), Leonidou (1995), Leonidou and Katsikeas (1996), and Madsen (1987) discussed other “missing links” in the literature.

2. Historically, EMCs work as agents and do not take title to the goods, and ETCs are merchants who take title. However, recently, about 50% EMCs have taken title to the goods while still calling themselves EMCs (Peng, 1998, p. 16). Thus, the traditional distinction between the agent-EMC and the merchant-ETC becomes increasingly blurred and is no longer valid. According to the U.S. Department of Commerce (1985, p. 4), “There is no clear cut distinction between EMCs and ETCs. Many former EMCs now call themselves ETCs. Both ETCs and EMCs may take title to goods or work on commission.” Therefore, in this article, we call them “export intermediaries” regardless of how they actually label themselves.

3. While transaction cost and agency theories are not always complementary, Williamson argued that these two theories are very similar in their managerial discretion and efficient contracting orientations, and that their behavioral assumptions are “substantially identical” (1988, p. 569).

4. Although some authors distinguish between “resources” and “capabilities,” “it is likely that they will become badly blurred in practice” (Barney, 1997, p. 144). Thus, we use the terms “resources” and “capabilities” interchangeably.

5. It is possible that over-reliance on export intermediaries may impose constraints on export development in the

long run. As a result, exporters often phase out intermediaries, after export sales reach a high volume. Consequently, export intermediaries often proactively search for smaller clients which are first-time exporters, or larger clients which may be interested in newer markets not currently covered by their in-house channels.

6. Taking title to the goods is not the only indication of commitment in the principal-agent relationship. However, for researchers, taking title is one of the most *unambiguous* measures to empirically capture such commitment – hence, our focus on this dimension.

7. This hypothesis that specialization in commodities, where entry is likely easier, may generate greater performance for intermediaries may seem counter-intuitive, but this is exactly what transaction cost theory (Williamson, 1985) would suggest. Although direct tests of this hypothesis, until this study, were not available, transaction cost-based empirical studies (Anderson and Coughlan, 1987; Aulakh and Kotabe, 1997; Campa and Guillen, 1999) documented that manufacturers of complex products are likely to forward integrate distribution channels, thus strongly *implying* that intermediaries attempting to specialize in these products are not likely to do well (Peng, Hill, and Wang, 2000).

8. Types of clients included (1) firms uninterested in exporting, (2) occasional exporters, (3) established exporters, and (4) globalized firms.

9. We did not directly ask for information about these two ratio-based measures, which would require more computation and might trigger nonresponse. Instead, information about three simple measures, (1) export profits, (2) export earnings, and (3) the number of people in each firm, was asked separately in the

survey, and was pooled together to compute net export sales margin (export profits/export earnings) and per capita export sales (export earnings/number of people).

10. Among the 195 respondents, 78 (40%) of them were born outside the United States. Two-thirds of the respondent firms had some foreign-born personnel. In 43 (22%) of these firms, the percentage of foreign-born personnel reached 75-100%. While some people were born but not raised abroad, our case studies and pretests suggested that key decision makers' place of birth, in combination with other factors listed in Table 1, provides an important underlying factor to form the construct of "export knowledge."

11. Since negotiation is an art that has to be learned by doing (Lewicki, et al., 1994), intermediaries which are more frequently involved in export negotiations are likely to be better negotiators.

12. Although an export intermediary usually handles several different product lines, the survey, based on our case studies and pretests, asked respondents to identify their *typical* products by referring to the product categories at the two-digit SIC level from which they derived their largest sales.

13. None of the 17 studies reviewed by Madsen (1987) and the 11 studies reviewed by Leonidou and Katsikeas (1996) was able to employ LISREL. Working in previously uncharted territory, this exploratory study was primarily driven by our interest in knowing what correlated with export intermediary performance, in the spirit of Beamish and colleagues (1999), Bilkey (1982), and Cavusgil and Zou (1994). Therefore, similar to these studies, ours was also constrained by the lack of a longitudinal design which could flesh out cause-

effect relationships (e.g., Shoham, 1998, p. 68). However, as noted by Reviewer 1, this does represent a fruitful direction for future research.

14. These capabilities mitigate both the hazards of high transaction costs abroad (through search and negotiation services) and the hazards of high agency costs (through taking title and specialization in commodity products), thus lowering the transaction and agency costs for their clients. Given that different countries are likely to present different transaction cost hazards (Henisz and Williamson, 1999), it is useful to divide countries into groups of high and low hazards based on cultural distance, which was explored by Peng, Hill, and Wang (2000). In addition, it may also be useful to examine performance for those intermediaries specializing in different types of products, also attempted by Peng and colleagues (2000).

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APPENDIX
KEY SURVEY QUESTIONS

	Strongly disagree	1	2	3	4	Strongly agree
Self-rated performance:						
When compared with your top-three competitors, your firm is more successful overall.						
Knowledge of foreign markets and export processes:						
(a) Respondent's export experience	1	2	3	4	5	Strongly agree
(b) Top-3 managers' average export experience	0	1-5	6-10	11-20	More than 20	
(c) Percentage of foreign-born personnel	0	1-5	6-10	11-20	More than 20	
(d) Top-3 managers' foreign travel frequency	0	1-25	26-50	51-75	75-100	
(e) Percentage of multilingual personnel	1	2	3	4	5	
(f) The firm's overseas connections	1	2	3	4	5	
(g) The firm's industry experience	1	2	3	4	5	
(h) Top-3 managers' industry experience	1	2	3	4	5	
Negotiation ability: [Relative to your top-3 competitors]						
(a) Key people at your firm have better negotiation abilities	1	2	3	4	5	Strongly agree
(b) Key people at your firm handle export negotiations more frequently	1	2	3	4	5	
Taking title: [Relative to your top-3 competitors]						
(a) Your firm is more willing to take title to goods	1	2	3	4	5	Strongly agree
(b) Your firms has better financial abilities to take title to goods	1	2	3	4	5	
Product specialization (reverse coded): For your typical products:						
(a) The amount of training manufacturers provide to your sales force	1	2	3	4	5	Very extensive
(b) The amount of training your sales force provides to foreign customers	1	2	3	4	5	
(c) The amount of required after-sales services	1	2	3	4	5	