

Factors Influencing Export Intermediaries' Competitive Strategies and Performance: A Conceptual Paper

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Export performance has been extensively studied from the perspective of manufacturers and SMEs product strategies in foreign markets, with recent attention toward the importance of export/import intermediaries of service industry. In order to sustain competitiveness and enhance future performance, a competitive strategy that parallels with markets globalization and technology advancement is required. This paper will focus on the internal forces that determine the competitive strategy and performance, moderated by external environments.

INTRODUCTION

Export, an important element to economic growth and prosperity, has become more and more significant and major source of income for most countries. The dramatic increase such as 10.7% of Malaysia export year on year in 2010 to RM 51.8 billion (DOS, 2011) resulted in direct and indirect economic growth, increased domestic production (GDP), decreased unemployment rate as well as a stabilized monetary exchange rate with foreign currencies. Therefore, a firm's international strategy becomes more important and essential, particularly with the increasing level of globalization across the international market (Shoham, 1999). In the PLC theory, this phenomenon arises when the domestic market is already at the saturated level. Even for SME companies, which look to the international market as part of their marketing strategies (De Noble, Castaldi and Moliver, 1989; Julien and Ramangalahy, 2003).

Several options for market entry strategies for export are at hand such as direct and indirect exporting, joint ventures, strategic alliances and foreign direct investment. MNCs for example, prefer direct exporting, joint ventures and other export modes through which they can access and control their products and services in the host countries (Aaby and Slater, 1989; Diamantopoulos and Kakkos, 2007; Zou, Fang and Zhao, 2003).

However, new manufacturers and SME exporters faced a limited budget and exposure to the international market. According to Julien and Ramangalahy (2003), new SMEs still have limited ability to acquire information and knowledge about foreign markets and manage foreign activities, which results in poor performance. Therefore, they are using other export modes; indirect exports through hiring export intermediaries (De Noble et al, 1989). Generally there are two types of export intermediaries (EIs), export management companies (EMC) and export trading companies (ETC) (Balabanis 2000, 2001, 2005; Bello and Williamson, 1985a). Instead of services offered by EI, there are other reasons why companies, especially manufacturers, choose export intermediaries uniqueness, their capacity for good relationships with current and existing clients will lead to a positional advantage compared with the competitors (Peng

and York, 2001). The resources based view (RBV) theory will be used to study competitive strategies and performance of export intermediaries in the global market.

PROBLEM STATEMENT

The global market is more volatile due to the current economic and political situation, new regulations such as FTA, NAFTA and EU, and the impact of ICT on international trade, which has made it more competitive. More and more exporters are revising their export strategies to meet foreign market needs in terms of pricing, quality and even export channel (Karunaratna and Johnson, 1997). Therefore, they will consider which channel is the better choice for them – direct or indirect – or even whether to withdraw from exporting.

Due to global competitiveness and the volatile market, EIs should take aggressive action to retain and attract new customers as well as suppliers. Peng and York (2001) in their study found that suppliers that are not satisfied with the current export intermediaries for any reason, can either change export intermediaries, stop using intermediaries or venture abroad themselves or quit exporting. Julien and Ramangalahy (2003) found that SMEs still have limited ability to acquire information and knowledge about foreign markets and manage foreign activities, which results in poor performance. Therefore, the customer relationship between organizations (EIs) with their current and existing customers should be strong and they should be satisfied in doing business with them.

In fact, most of the literature by earlier researchers focuses on export development and export performance, which directly involves MNCs, manufacturers or SMEs (Aaby and Slater, 1988; Cavusgil and Zou, 1994; Zou and Stan; 1998). Various researches has been done on EIs, defining them as specialized services firms that bridge the gap between local manufacturers and foreign buyers, and how their services could affect their business performance (Balabanis, 2000, 2001 and 2005; Bello and Williamson: 1985a and 1985b; De Noble, Castaldi and Moliver; 1989; Peng and York; 2001). However, there is a gap in the research on how to measure the successful performance of the EIs role in becoming unique and providing a competitive advantage among themselves.

Although Sharma, Taiani and Sariteke (2006) have mentioned in their articles that EIs can improve the service offered to their clients to maintain competitiveness while Peng and Ilinetch (1998) stressed EIs uniqueness as one factor of their performance, it seems that there is still a gap that needs to be explored. Therefore, the uniqueness of a service firm, especially EIs, depends on the services they offer and their relationship with new and existing clients.

LITERATURE REVIEW

Exports

Scholars have been interested in export literature from a long time ago. It is a part of international marketing. Export development has been studied by scholars, the pioneers of which were economists who proposed several theories, mostly international trade theories, such as The Absolute Advantage Theory by Adam Smith in 1776, The Comparative Advantage Theory by David Ricardo in 1877 and The Product Life Cycle by Vernon in 1966 and Wells in 1968. The economic theory has its own limitations, later scholars not only focused on economic view but also on firm specific aspects of behaviour related to trade. Leonidou and Katsikeas (1996) in their literature stated that the export development process is based on export stages that were first proposed by the Uppsala School in the mid-1770s. Then more models were revealed by many scholars such as Johanson and Wiedersheim-paul (1975), Bilkey and Tesar (1977), Wortzel and Wortzel (1981) and Czinkota (1982).

Katsikeas, Leonidou and Morgan (2000) mentioned that although export performance has been extensively studied by scholars, it is still poorly understood and is one of the most contentious areas of international marketing. There have been several theories discussed covering the ambiguity of the export performance area such as the Industrial Organization (IO) Theory, Resource-Based View (RBV) Theory and Comparative Theory. More recently scholars have been focusing on the manufacturers in exporting

products abroad but also covering service industries including export intermediaries (Balabanis; 2000, De Noble, Castaldi and Moliver; 1989; Sharma 2006).

Export Intermediaries

The indirect method of exporting is one of the best choices for certain companies as mentioned by De Noble, Castaldi and Moliver (1989) as 'Export Intermediary' is used to describe a number of middlemen that perform similar functions. Therefore, they have to find an intermediary firm that is compatible with their goals in exporting. Export intermediaries are the firms that market local products overseas on behalf of manufacturers, agricultural groups, as well as SME companies (De Noble, Castaldi and Moliver; 1989). Export intermediaries may be giant international companies or highly specialized with relatively small operations. Generally, they provide a variety of services, including market research, finding overseas buyers, distributors or commission representatives, advertising, shipping, exhibition products and services at trade shows and arranging documentation (Balabanis; 2000; De Noble Castaldi and Moliver; 1989; Peng, Hill and Wang, 2000, Peng and York; 2001).

According to Balabanis (2000), the classification of export intermediaries is made accordance with the function and services offered such as an Export Management Companies (EMC), Export Trading Companies (ETC), piggyback and freight forwarder. Most of the literature and empirical research focuses on EMC and ETC. Export Management Companies and Export Trading Companies are terms that are commonly used in the US whereas they are known as Trading Houses and Export Merchants in Britain, and in Japan and South East Asia they called General Trading Company and Specialty Trading Company, respectively (Balabanis 2000). Bello and Williamson (1985a) mentioned that services offered by export intermediaries vary and can be classified through their function.

Balabanis (2000) noted that the function would be typically performed by the export department or the international sales department of manufacturers and suppliers. Furthermore, Bello and Williamson (1985a) mentioned that EMCs, which are commonly known as General Trading Company or Sogoshosha, are well known and become the preferred choice of the majority to distribute their products internationally. EMCs develop personalized services promoting their client's products to international buyers and distributors, represent the producer's names or use their own names, and receive either a commission, salary, or retainer plus commission. There are several EMCs that are unusually large and can provide immediate payment, arranging financing or direct purchase of producers' or suppliers' products for resale.

Again, EMCs usually specialize in either products or foreign markets or even both (Balabanis, 2001). Therefore, he claimed that because of EMC specialization, they know their products and the markets that they serve very well and usually have well-established networks of foreign distributors already in place. This will give superior advantage to EMCs and their producers as well as suppliers in terms of effective channelling and the relative cost of distributing.

In contrast, ETCs are more market oriented and transaction driven (Balabanis, 2000). An ETC most often acts as an independent distributor creating transactions by linking domestic producers or suppliers and foreign buyers. ETCs could be representatives on behalf of manufacturers or suppliers in a foreign market, determining what products are desired in a given market and then working with them to satisfy demand. Most ETCs take title of the goods involved, but some of them are willing to work on a commission basis.

Export Performance

Export performance is generally defined as the outcome of a firm's export activities in a foreign market (Shoham, 1996). Studies on export performance made based on two measurements – economic and non-economic variables (Leonidou, Katsikeas and Samiee, 2002). However, Katsikeas, Leonidou and Morgan (2000) found from empirical research that export performance comprises three generic measurements. Economic or financial export performance consists of export sales intensity, export sales growth and export profitability (Katsikeas, Leonidou and Morgan, 2000; Piercy, Kaleka and Katsikeas, 1998, Zou, Fang and Zhao, 2003) while firm perceived on success, satisfaction, goal achievement are the

dimensions in explaining non-financial performance (Zou and Stan, 1998). However, Katsikeas, Leonidou and Morgan (2000) mentioned that most background and intervening variables in the empirical research are associated with economic measures of performance, particularly export sales intensity (export to total sales ratio), export sales growth, and export profitability.

Zou and Stan (1998) diversified determinants of export performance into two categories; internal and external determinants. External determinants are justified by the Industrial Organization (IO) Theory where the external factors and firm's export strategy are influencing export performance. In contrast, internal determinants are supported by the Resources Based View (RBV) Theory (Barney, 1991). In the RBV the scholars focus on the internal factors that can controlled by firms and strategy affecting performance (Barney, 1991; Peirce, Kaleka and Katsikeas, 1998, Zou, Fang and Zhao, 2003). This theory is mostly implemented in research in the marketing field for either the product or services industry, as La, Patterson and Styles (2005) noted, export performance of services firms is determined by their specific resources and moderated by the types of services offered.

However, several researchers combined internal and external determinants as factors influencing strategies and export performance (Cavusgil and Zou 1994; Katsikeas, Leonidou and Morgan, 2000; Leonidou, Katsikeas and Saimee, 2002). For them, internal factors cannot be solely factors that firms consider for their strategies unless considering external factors as well.

Export intermediaries' performance is widely determined by market coverage, distance in terms of geographical or cultural and product (Balabanis, 2001; Peng, Hill and Wang, 2000). Meanwhile, Sharma (2005) and Sharma, Taiani and Sariteke (2006) focussed on types of services offered – transaction creating and physical fulfilment services – as determinants of their performance.

Management Characteristics and Firm Competencies

Technology. Julien and Ramangalahy (2003) in their study found that SMEs still have limited ability to acquire information and knowledge about foreign markets and manage foreign activities that results in poor performance. Information is a crucial resource in the knowledge economy and global market whereas technology and innovation in production and marketing fastening or shortening a product or service life cycle. International marketing requires current updated technology and innovative products to remain sustainable. According to Aaby and Slater (1989), technology is known to be one of the most important factors for firm to maintain its competencies as its stands for strategies leading to performance. Sharma (2005) and Sharma, Taiani and Sariteke (2006) suggested that export management companies (EMCs) use the latest technology, such as e-business, to become more effective and efficient in dealing with suppliers and buyers.

Export/market knowledge. Aaby and Slater (1989) empirically stated that market knowledge becomes a strong influence for any successful exporters. Brencic, Ekar and Virant (2008) described that knowledge about the market influences firm's export performance based on the internalization theory. Again, those authors used a model from the Uppsala School, which was proposed by Johanson and Vahlne in 1977, who found that experiential knowledge is a part of market knowledge and strongly influences performance. Meanwhile, Boughanmi, Al-Mandheri and Omezzine (2007) mentioned that the education level and previous work experience reflects the management skill and knowledge in international business thereby influencing export performance.

Management attitude. Management attitude is a factor that determines export performance (Zou and Stan, 1989). It includes management export commitment and allows for effective strategies that improve export performance (Aaby and Slater 1989). Julian (2003) confirmed Zou and Stan's (1998) findings that commitment influences export performance but more specifically marketing performance. Katsikeas, Leonidou and Morgan (2000) proposed that personal commitment is one of the managerial factors determining the targeting factors and marketing strategy factors that lead to export performance.

Customer relationship. Piercy, Katsikeas and Cravens (1997) noted the importance of suppliers and buyers having a good relationship to sustain a competitive advantage in foreign markets. Exporters should observe the customers' needs by having a good relationship with them, thereby affecting performance and satisfaction (Karunaratna and Johnson, 1997). This study supports the previous research done by Kaleka,

Peircy and Katsikeas (1997) and Kasikeas and Al_khalifa (1993) regarding the relationship between manufactures and overseas distributors. Katsikeas (1992) compares the conflict in the relationships between exporters-importers and exporters-domestic customers' business partnership. The result indicates that exporters-domestic customers get a higher level of conflict compared to the international level. Therefore, customer relationship is important to EIs with both domestic and international customers.

Competitive Strategies

Barney (1991) mentioned that competitive advantage emerges from the creation of the superior competencies that are leveraged to create customer value and achieve cost and or differentiation advantages, resulting in market share and profitability performance. Again, Barney (1991) proposes that resources of the firms must be developed and sustain competitive advantages through the resources based view (RBV) theory. A resource must be valuable, rare, and difficult to imitate and be supported by the organization. By using the same theory, Percy, Kaleka and Katsikeas (1998) noted that resources and skills in firms will influence the competitive advantage and superior performance.

Porter (1985) suggested that companies might possess two types of competitive advantage; cost leadership and differentiation. Morgan, Kaleka and Kasikeas (2004) identified that cost leadership, marketing differentiation and service differentiation forms a competitive strategy that mediates resources and capabilities and positional advantage in the export market and export venture performance. Cost, product and service are three issues in competitive advantage affecting superior export performance (Peircy, Kaleka and Katsikeas 1998).

Aaby and Slater (1989) found that strategy has a positive mediating affect on the relationship between antecedents and export performance. Cavusgil and Zou (1994) suggest that export marketing strategies are strongly mediating between internal and external firms' determinants and export performance. This study is supported by other researchers such as Hooley et al (2001), Katsikeas, Leonidou and Morgan (2000), and Leonidou, Katsikeas and Saimee (2002), which suggests that both factors are determinants of the strategies and performance. Julein and Ramangalahy (2003) revealed that information search and competencies positively influence competitive strategy and export performance.

External Environment

External environment surrounding the firms in both the local and global competition market must be aware closely. Cavusgil and Zou (1994) noted that external forces; industry and export market characteristics have a strong influence on firm strategies and export performance instead of internal forces. This research supports the empirical research of Zou and Stan (1998), which found that industry, domestic market as well as foreign market characteristics together with controllable and uncontrollable internal factors determines export performance.

However, Hooley et al (2001) mentioned that market environments are antecedents with market-focused resources for firm performance. Again they considered market environment as good moderating in strengthening the relationship between competitive position and firm performance. Meanwhile, the scholars studying market orientation, such as Cadogan, Diamantopoulos and Siguaw (2002), Jaworski and Kohli (1993), and Slater and Narver (1994), found that environment strengthens the relationship between antecedents and market performance. Slater and Narver (1994) classified the dimensions of environment into market turbulence, technological turbulence, competitive hostility and market growth. Meanwhile, Cadogan, Diamantopoulos and Siguaw (2002) described environment as export environment. However, Cadogan et al (2005) specified that environment as market turbulence and technological turbulence moderates the relationship of exporting interfunctional interactions and export performance.

In the supply chain literature, environment is a factor in firm performance (Fynes, Burca and Voss 2005). They point out that technological turbulence along with competitive intensity and customer types strengthens the relationship between supply chain relationship quality and supply chain performance.

Firm Characteristics

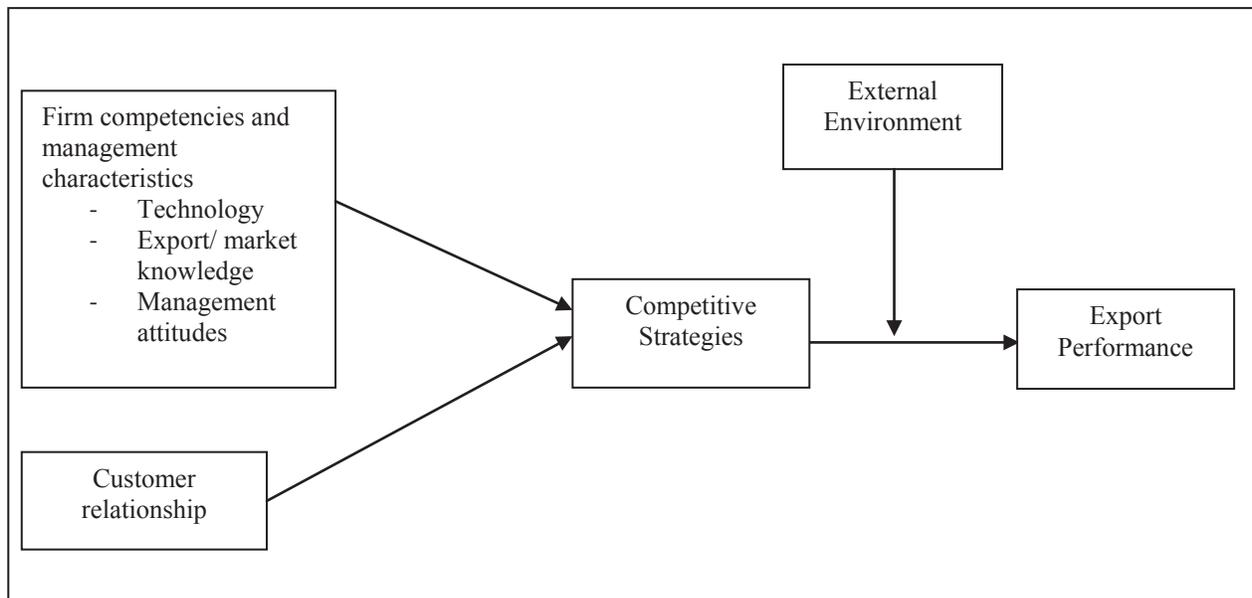
Firm size and export age or export experience are widely used as antecedents for export performance as well as firm performance either in product industries or services. However, empirical research conducted by Zou and Stan (1998) found that firms' characteristics have mixed results towards performance. Most scholars suggest that firm characteristics have a direct influence on performance (Katsikeas, 1994; Leonidou, Katsikeas and Saimee, 2002). Even in service industry literature, such as Gourlay Seaton and Suppakitjarak (2005), where it was found from research on UK service firms from 1988 to 2001 that firm size is one of the determinants of export behaviour.

However, Wu et al (2007) suggested that firm size and foreign market experience must be under control variables as larger firms and experience result in greater resources and higher competitive advantages to the firms. Krisnan, Tadepalli and Park (2009) also supported that organizational size should be under control variables in determining organizational performance.

Conceptual Framework

The conceptual framework below is proposed to ensure that export performance are affected by firm competencies (Aaby and Slater, 1988; Brencic et al; 2008; Sharma et al, 2006; and Sharma, 2005), management characteristics, (Aaby and Slater, 1988; Katsikeas et al, 2000; and Zou and Stan; 1998) and customer relationship (Katsikeas, 1992; Peirce et al, 1997) while mediated by competitive strategies (Peirce et al, 1997). Meanwhile external environment moderate the relationship between competitive strategies and export performance (Cadogan et al, 2002; Hooley et al, 2001; Jaworski and Kohli ,1993; and Slater and Narver 1994). Firm characteristics such as firm size and export age considered as control variables (Wu et al.; 2007).

FIGURE 1
THE PROPOSED CONCEPTUAL FRAMEWORK



CONCLUSION

This framework gives a new dimension to export intermediaries in coordinating their firms for better performance. Globalization and rapid changes in technology, export intermediaries, especially export management companies have to be more creative to sustain competitiveness in the market. Developing firm competencies and superior management capabilities and enhancing innovation in service strengthens

financial performance (Piercy, Kaleka and Katsikeas, 1998). Many researchers in export and international marketing suggest using the findings of performance in developed countries to extend the research in developing countries. This new finding will help export intermediaries further explore their internal resources to maximize their performance.

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