

Exploring product and cultural contingencies in exporter-intermediary relationships

Submitted to the EIBA conference Catania, December Sicilia 2007

### *Abstract*

How should the exporter manage its relationship with its middlemen given different levels of performance ambiguity? The article addresses this question by exploring four different settings of performance ambiguity involving cultural distance (external uncertainty) and product complexity (internal uncertainty). In a sample of 173 Norwegian exporting companies the author analyses relational drivers' effect on relationship quality between trading partners – exporters and their distributors. Results suggest that: cultural distance and product complexity are two key contingency factors that moderate the role of relational mechanisms used by exporters in creating relationship quality with their foreign sales intermediaries. The article discusses implications for research and for management.

## *Introduction*

The problem of developing relations with the foreign distributor is a key issue in international marketing (Solberg 2006). The question we ask in the present article is: how should the exporter manage its relationship with its middlemen given different kinds of performance ambiguity? This has only been given limited attention in international marketing research.

Ford and Rosson (1982) analysed different aspects of these relationships in the early 1980s, but only in the late 1990s a more thorough and rigid analysis of exporter-middleman relations gained impetus with contributions from writers such as Aulakh et al (1996) Celly and Frasier (1996), Bello and Gilliland (1997), Mortanges and Vossen (1999). Since then several contributions have appeared (see for instance Bello et al 2003, Zhang et al 2003). Much of the focus in exporter-foreign distributor research has been on the effectiveness of unilateral control modes (Bello and Gilliland 1997) and of what has been termed relationalism (Bello et al 2003), relational control (Mortanges and Vossen 1999), social control (Aulakh et al 1996), relational norms (Heide et al 1994; Zhang et al 2003), clan control (Solberg 2006a and b). One conclusion of this research is that outcome control and relational control seem to work positively on relationship quality and performance (Bello and Gilliland 1997, Mortanges and Vossen, 1999, Solberg 2006a) whereas process control either does not have any significant impact (Bello and Gilliland 1997) or in some instances is counterproductive (Solberg 2006a and b). In 2006 a special issue of the *Advances in International Marketing* was devoted to exporter-middleman relations (Solberg 2006).

The importance of developing good working relations between the partners (exporter and foreign distributor) is in the core of this research. However, the mechanisms to create a mutually beneficial relationship atmosphere rest on their ability to evaluate the performance of their business relations. In this context, uncertainties related to both the external environment and the internal relationships between the partners create what has been termed performance ambiguity (Williamson 1985, Heide 1994). For example, the agent's interaction with the foreign customer, customizing the product, as well as market volatility, may increase agent performance ambiguity (Bowen and Bowers 1988). Research reveals mixed results concerning the effects of performance ambiguity. Stump and Heide (1996) found that increasing performance ambiguity is related to less monitoring in an industrial relationship context. Mishra et al (1998) argue that performance ambiguity warrants a combination of controls, whereas Mysen and Solberg (2003) found that performance ambiguity had limited influence on effects of relational exchange and teaching, but were positively related to the effects of flexibility and process control.

Two factors representing performance ambiguity are cultural distance (external uncertainty = need for cultural sensitivity by the trading partners) and product complexity (internal uncertainty = need for interaction catering to solve functional problems related to the product or the service). The current article brings this discussion of relationship mechanisms one step forward by studying the effect of these two contingencies in a sample of 173 Norwegian exporters. The article is structured as follows: after a brief

literature review, we develop a model and subsequent hypotheses of exporter-middleman relations given different levels of cultural distance and product complexity. Next we describe the methodology of the study, the results are presented and finally, before conclusions, we discuss implications for research and management.

### *Model and hypothesis development*

The basic contention of our model is that relations are being nurtured in different ways depending on cultural distance and product complexity. Cultural distance is a relatively constant factor (Hoppe, 1990), and even though key personnel in firms can develop sensitivity to different cultures (Skarmeas et al 2002, Johanson and Vahlne 1977) and thus reduce the cultural distance and thereby transaction costs between economic actors, it appears that this factor plays a critical role in the way in which relations between partners evolve. Solberg (2006 a) found that cultural distance impacts negatively on the exporter's propensity to use clan control (but not unilateral control modes), whereas Nes et al 2007 found that cultural distance affects both trust and interfirm communication. On the other hand, seen from the importer's standpoint, culture does not seem to matter on the relationship structures (Ha and Singapakdi 2004), but seems to impact opportunism (Skarmeas et al 2002, Stump et al 2002).

Culture has been studied by an increasing number of writers on management, negotiation and marketing (see for example Hall 1959, Hofstede 1980, Adler 1983, Laurent 1983, Usunier 1993, Grennes 1999, Nes et al 2007). For instance Hall's (1959) conception of

high context and low context cultures gives considerable insight into the important dimensions of behaviour of different national groups. According to Hall (1959) the German, Nordic and American cultures are all in the low context part of the scale, implying that statements are taken literally and that precision is required in order to convey the full meaning of the statement. At the other end of the scale Hall identifies countries like Japan, Latin America and Arab countries placing more emphasis on the use of symbols. Galtung (1981) maintains in the same vein that Anglo-Americans focus more on facts, whereas Gallic and Germanic people to a larger extent emphasize theoretical presentations. The Gallic in turn are more concerned with elegance than the Germanic, the latter setting up perfection and indisputability as their ideal. Hofstede's (1980) well-known cultural dimensions (uncertainty avoidance, power distance, masculinity, and individualism) represent another set of constructs and have been widely used in academic research. Hofstede's dimensions are useful as they represent an easy way out to quantify otherwise very complex constructs. However, research using these dimensions does not always give predicted results (see for instance Zhang et al 2003). The use of culture and cultural distance as variables in management research poses in fact great challenges to the researcher (Grennes 1999, Shenkar 2002). Yet, the fact that culture and related constructs such as psychic and cultural distance, and cultural sensitivity are difficult to operationalise should not prevent us from investigating their effect on relations between partners in the international market place.

Different products require different kinds of interaction with the customer and middlemen in foreign markets in order to reduce internal uncertainty. It is fair to assume

that the degree of interaction to a great extent is dictated by what we may term the functional needs experienced by the partners to engage in long term relations in order to carry out their mutual business transactions as effectively as possible. The need for long-term relations varies greatly between types of products. Valla (1986) introduces three categories of products (semi-finished goods, components, equipment), requiring different levels of attention in business relationships. Williamson (1975) uses frequency of transactions, whereas Cunningham and Homse (1986) introduce product complexity divided in six categories (functional, manufacturing, specification, application, commercial and finally political complexity). Generally, the more complex the product and the more frequent the transactions, the more (functionally) interdependent the buyer-seller relationship (Campbell, 1985). Another aspect of the interdependence between buyer and seller is the value of the delivery, not only in terms of money, but not the least in terms of criticality to the customer (whereas a winch may cost only 1%o of the total worth of a ship order, it may still be critical to the operation of the ship). Combining the two dimensions (culture and product) gives us a model as suggested below.

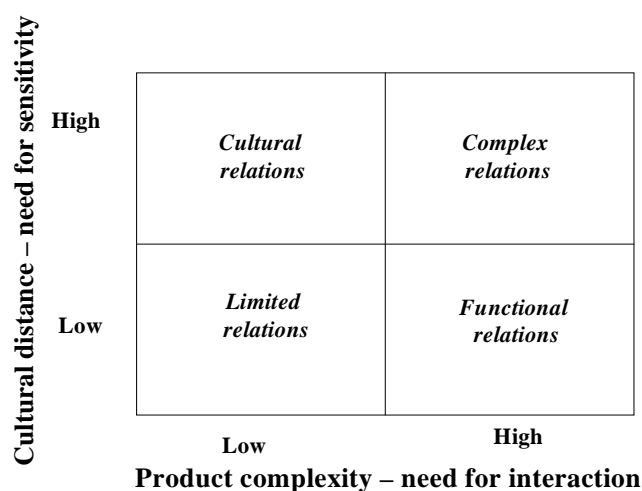


Figure 1: A typology of exporter-middleman relations

It has been shown that relationship quality between the exporter and its middlemen in foreign markets is positively related to export performance (Solberg 2006a). Relationship quality therefore constitutes a key-mediating variable in explaining performance in international markets. The question then remains: what composition of the relationship mechanisms yields the best results given different combinations of internal and external uncertainties. The following sections will briefly describe the four situations and develop a number of hypotheses related to them. By relationship mechanisms I understand both the controls that the exporter can deploy in order to align agent goals with its own goals (outcome, process and clan control) and a number of levers that help the exporter in that endeavour: information exchange, investments in relations, social relations, flexibility, and participation by the exporter in local marketing operations. In addition I have included the role afforded to the agent in the critical introductory phase of the relations.

#### *Limited relations*

In this cell of the model we assume that the relations with customers are easy to develop and maintain. Typical relationships would be between economic actors in neighbouring countries trading products such as unbranded products and standardised components. There are no specifically demanding requirements - neither on adapting products to specific needs in the market, nor on understanding the cultural differences between the actors. The performance ambiguity is minimal and transaction costs are therefore deemed to be low between the exporter and its final customer in the foreign market.



Under these circumstances it is assumed that the role of the agent is first and foremost important in the introductory phases of the exporting venture. This is when the exporter needs assistance in identifying and getting embedded with customers. Later we may assume that the exporter can operate with less participation of the agent. Furthermore, given the uncomplicated nature of trading relations it is suggested that social relations with the intermediary will yield better returns (higher relationship quality) relative to other mechanisms since the “technical” and cultural requirements to reduce transaction costs are limited. Also, for the same reasons, extensive investment in the relations in and information exchange with the agent seem if not redundant so at least less necessary under such conditions. Finally, relationship quality is thought to be less critical in this cell than in other cells since transaction costs are lower and the consequences of a switch of partners and/or operation mode are less dramatic (Benito et al 2006) as the role of the agent is lesser than in other relationships. More formally this gives us the following hypotheses:

H1: In limited relations

- a: The role of the agent restricted to introduction of the exporter relationships cell yields better returns than in other cells.
- b: Social relations with the intermediary are the more productive than other governance mechanisms.
- c: Investments in relations and information exchange yield inferior returns (in terms of relationship quality) relative to other cells.

d: Relationship quality is less important than in other relationships.

### *Functional relations*

Here the relations are characterised by higher transaction costs due to product complexity. Typical situations would be complex products and services (necessitating extensive customer adaptation, servicing and maintenance and/or high technical content) sold to neighbouring countries. In this situation it is deemed critical to have well functioning relations with the intermediary so that products are being installed and maintenance carried out in a correct way and that the necessary knowledge is appropriately transferred.

In this setting we expect quality of the relationships to be enhanced by levers that are supposed to ease their well functioning, such as information exchange and flexibility. Information exchange enhances trust and smoothes the progress of alignment of goals and perceptions (Moorman, Deshpandé and Zaltman 1993). Flexibility on the other hand is a “bilateral expectation of a willingness to make adaptations as circumstances change” (Heide and John 1992, p. 35). These are needed, we believe, because adaptations have to be made along with the delivery of the more complicated products and services. Furthermore, for the same reasons, the role of the exporter is deemed to be more active in the local marketing of the products than in the limited relationships cell; the knowledge and expertise of the exporter is necessary to smoothen the transaction. This calls for closer interaction between the exporter and its intermediary.

Finally we anticipate that clan control is more effective here than in the previous cell since complex deliveries necessitate a higher degree of involvement by the intermediary. Given local idiosyncrasies and problems exporters typically will encounter trying to control and monitor the intermediary when carrying out local marketing activities in this setting, this latter will at times need to make decisions independently of the exporter. Clan control implies elements of shared values and trust: trust based on benevolence of the partners and their credibility. Trust in this context entails mutual confidence that no partner will exploit the other (Sabel 1993), and presupposes that the trust based relationship is founded on the experience that the partners have with each other after having worked together over time - reaching a degree of efficiency in their mutual dealings (Ganesan 1994). Summing up this section we postulate that:

H2: In functional relations

a: Information exchange, flexibility and exporter participation are more important than in limited relations.

b: Clan control is more important than in limited relations.

### *Cultural relations*

In this situation the firm is selling standard products to countries that are culturally distant from the exporter's home base. For firms located in Northern Europe, this would typically be Eastern Asia, Arab countries, and to a lesser extent Latin countries, both in Europe and in America. The problems of psychic distance have been explored in a number of studies, and it is evident that the transaction costs are seriously augmented as

unexpected behaviour both from customers, regulatory agencies and business partners - and the inability of the exporter to react properly to this behaviour - have a vicious tendency to disturb the “normal train of affairs”.

Studies on cross-national organizational behaviour (Ruedi and Lawrence 1970; Hofstede 1980; Laurent 1983) suggest that culture matters, but the mechanisms in inter-organizational relations are not fully explored. Zhang et al (2003) investigate how national culture affects relational norms between exporters and their foreign distributors, and Ha et al (2004) examine the relationship between national cultural distance and trust, but neither found significant results. Nes et al (2007) found that cultural distance impacts negatively on inter-firm communication. Furthermore, Solberg (2006a) found that cultural closeness is positively related with clan control, or put differently: the further the cultural distance, the more problematic it is to efficiently establish clan control. In a setting with simple product offerings and high cultural distance we may therefore expect that clan control is not going to be as effective as in other relational settings. On the other hand, given the uncertainty surrounding transactions, the exporter needs to apply a number of levers in order to build a well-functioning relationship with its foreign partners. Some of these may be directly related to trust building such as empathetic behaviour or flexibility allowing for unforeseen events given the different cultural settings of the exporter and the host countries (Solberg 2006a). Social embeddedness between key members of the partner firms (Granovetter 1985, Uzzi 1997) and strong personal relationships (Håkanson et al 1982, Wilson and Mummalaneni 1986, Mummalaneni and Wilson 1991) are other means to attain commitment and trust between

buyers and sellers. We believe that importance of these mechanisms increases with cultural distance as they will act to reduce the uncertainty. More “technical” mechanisms such as knowledge transfer or teaching are less critical in the present cell (cultural relations) since the products are rather simple and standardised. Finally we believe that the agent’s role is more active than in limited relations. The agent is supposed to be a bridge builder between two distant partners, but this role is not limited to the initial phase of the relationships; rather it is an ongoing function lasting throughout the relationship between the partners. This gives us the following hypotheses:

### H3: In cultural relations

- a: Social relations and flexibility are more efficient than other mechanisms
- b: Social relations and flexibility are more efficient than in other cells of the model.
- c: The role of the agent goes beyond the mere introductory role; therefore the role of the agent restricted to introduction of the exporter is negatively related to relationship quality.

### *Complex relations*

The problems of cultural relations are compounded by the challenges confronting the exporter of cooperating with the intermediary in view of adapting complex products to local market needs, transferring information and knowledge. This is possibly most conspicuous for large projects in distant markets, but also for technologically advanced products and branded products in these markets. Transaction costs are assumed to be particularly high in this instance.

This cell combines the features of the two previous cells (functional and cultural relations). It is therefore expected that some combination of these latter's mechanism will yield returns in terms of relationship quality. For instance, clan control being important with complex products, is supposed to be effective also when product complexity is compounded with cultural distance. In spite of the fact that cultural distance makes clan control more difficult (Solberg 2006a) we believe that the requirements of product adaptation will prevail. Also, it is expected that process control in this context will have counterproductive effects, as the complexity of the relationships does not warrant any detailed instructions and subsequent follow-up by the exporter. On the other hand, outcome control is predicted to be yielding positive returns. Solberg (2006a) found that outcome control in general only had limited effects on relationship quality, regardless the contingencies of the relationship. However, the more complex these become, the more we should expect that controlling the outcome of the agent's activity will impact positively on results, since the intermediaries know they are held accountable for the results (Anderson and Oliver 1987) and that they bring about an alignment of interests of the parties involved (Eisenhardt 1989). Furthermore, all the bonding mechanisms such as social relations, information exchange, flexibility, investments in relations, exporter participation are expected to have positive impacts on the quality of the relationships between the partners in this context. Hence:

H4: in complex relations

a: Clan and outcome controls are positively related to relationship quality.

b: Process control is negatively related to relationship quality.

c: Social relations, information exchange, flexibility, investments in relations, and exporter participation relate positively with relationship quality.

## *Methodology*

### *Sample*

469 Norwegian firms registered in the Norwegian Export Barometer<sup>1</sup> were asked on telephone if they were interested in participating in the present study, 246 of which answering positively. Thus we obtained both the name of the most appropriate respondent in the firm, and a commitment by this person to respond. Immediately after the telephone conversation, we sent an e-mail containing an introductory letter and a questionnaire using the Questback data system. Before the deadline we had received 173 valid answers - or a response rate of 70,3% of the refined list or 36,9% of the gross sample frame. Some of the fallout was due to travel and heavy workload of the potential respondents. Table 1 gives an overview of the composition of the sample.

Table 1: Composition of the sample

<i>Sales</i>		<i>Exports to most important market</i>	
Million NOK*	Percent of sample	Million NOK*	Percent of sample
<25	23,5	<25	14,9
26-50	21,2	26-50	9,5
51-100	16,5	51-100	14,3
101-500	23,5	101-500	34,5
>500	15,3	>500	26,8

\*1 Euro = ca. 8,50 NOK; 1USD = ca. 6,50 NOK (NOK = Norwegian krone)

This composition compares well with other studies of Norwegian exporter behaviour (Solberg 2002, Solberg and Durrieu 2006, Nes et al 2007).

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<sup>1</sup> This list is the result of one year's registration of relevant firms representing a cross section of Norwegian exporting firms.

The respondents were asked to answer a number of questions pertaining to their relations with their local representative in their most important export market. This is slightly different from the research presented by Anderson and Narus (1990) and Bello and Gilliland (1997) who chose the focal relationship to be the fourth most important in foreign markets, in order to avoid a “positive evaluation bias” because “relations with a firm’s first- or second-largest-volume trading partner tend to be uniformly positive” (Bello and Gilliland 1997, p. 29). We decided to use the most important one, first because not all exporters sell to four markets, and second because it is not obvious that all first and second volume relationships are trouble-free. Also, we assume that the knowledge of details of the relationships between the trading partners is higher in the most important market, than lower down the row.

### *Measurements*

The following constructs were measured on a 5 point Likert scale: outcome control, process control, clan control, information exchange, social relations, flexibility, investments in relations, agent role, partner cooperation, cultural closeness, product complexity and relationship quality. Table 2 shows the items used in each construct and their corresponding Cronbach alpha values. We have adapted measures used by Bello and Gilliland (1997) (output and process control, flexibility, resource inadequacy), Solberg (2006a) (social relations, investment in relations, cultural closeness), Morgan and Hunt (1994) (trust/clan control). Defining product complexity, we have sought to tap into the technological and servicing complexity of the product offering. Role of agent and participation in local marketing by the exporter are *de novo* items. Relationship quality has been defined in various ways, and constructs like trust, absence of



opportunistic behaviour, cooperation and stability may be included (Johnson et al. 1993). In Johnson and Raven (1996) it was examined in terms of fairness, commitment, cooperation and communication intensity. In the present research we define relationship quality more instrumentally, evoking associations of stability, potential and longevity rather than the more affective definitions of Johnson and Raven (1996).

Table 2: Constructs used in the study

<i><b>Construct and items</b></i>	<i><b>Factor loadings</b></i>	<i><b>Alpha</b></i>
<i><b>Contingency variables</b></i>		
<i>Product complexity</i>		.83
Our products that the agent is responsible for is featured by		
- a high degree of copmplexity	.900	
- a high degree of technological innovation	.869	
- a high degree of specialisation	.861	
- a great need for maintenance	.608	
<i>Cultural closeness</i>		.76
There is no cultural difference between ourselves and our agent	.893	
The cultural differences that might exist between the country of our agent and our country do not represent any problem in our relations with our agent	.854	
There are no language problems between ourselves and our agent	.704	
<i><b>Independent variables</b></i>		
<i>Output control</i>		.89
We follow up our agent regularly to check that profitability objectives are being met	.875	
We follow up our agent regularly to check that sales objectives are being met	.868	
We follow up our agent regularly to check that market share objectives are being met	.866	
<i>Process control</i>		.69
We regularly monitor the activities of the agent	.874	
We control how the agent introduces our product to the market	.735	
<i>Clan control</i>		.74
Our agent is trustworthy	.866	
Our agent has high integrity	.841	
It is not necessary to follow up our agent since it always works to the benefit of the firm	.687	
Our firm has traditions, norms, values that direct the decisions & activities of the agent	.657	
<i>Social relations</i>		.66
Key personnel in our firm are good friends with key personnel in the agent firm	.839	
We have extensive social relations with our agent	.709	
There are well-defined guidelines between ourselves and the agent	.630	
<i>Investments in relations</i>		.68
We invest considerably in developing our relations to our agent	.817	
We invest considerably in developing our own knowledge about this market	.792	
We give our agent special training to market and sell our products	.617	

<i>Information exchange</i>		.64
The information flow between us and the agent is satisfactory	.798	
The information exchange in this relationship is frequent and informal	.767	
It is expected that both parties keep each other updated on events or changes in the market that may affect the other party	.728	
<i>Flexibility/empathy</i>		.70
Both parties are open to each other's requests to modify a prior agreement	.818	
When some unexpected situation arises, both parties would rather work out a new deal than hold each other to the original terms	.789	
Both parties are flexible with regard to rush inquiries from the other party	.709	
<i>Cooperation between the partners</i>		.71
Our participation in the sales process in the agent's market is minimal (R)	.889	
We are cooperating closely with our agent in the sales and marketing in this country	.844	
<i>Introductory role of agent</i>		.63
It is primarily in the introductory phase that the agent plays a role, later we take over	.842	
The agent appears first and foremost as a bridge builder	.838	
<b><i>Dependent variable - Relationship quality</i></b>		.78
Our relations with our agent may be described as:		
Stable - unstable	.877	
Well functioning - difficult	.810	
Predictable - unpredictable	.747	
Having a great potential - having little potential	.579	

Some of the constructs achieve Cronbach alphas lower than .70: process control (.69), social relations (.66), investments in relations (.68), information exchange (.64) and introductory role of agent (.63). One may argue that a value below .70 could indicate unreliable scales. However, the value of the alpha score depends on the number of items on the scale (Cortina 1993). As the scales used in the research project sometimes consist only of 2 or 3 items, the reported alphas may therefore be accepted. Even though process control was operationalized in the same way as Bello and Gilliland (1997), we had to reduce the number of items to two for the scale to approach .70. This may suggest that constructs that are reliable in one setting (US exporting firms) may not achieve satisfactory scores in another (Norwegian exporters). Also, some of the constructs are new ("Cooperation between the partners" and "Introductory role of agent") and therefore need further refinement.<sup>2</sup>

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<sup>2</sup> In both cases we had to exclude items to achieve acceptable alpha scores: "The agent is responsible for all the marketing activities in this market"; "We participate in all phases of the sales process in this market"; "Changing the agent will set us several years back in this market".

We have controlled for discriminant validity using Pearson correlations. The results are shown in appendix 1, indicating by and large that the constructs are not strongly correlated, although some are borderline cases - above 0.5 (output control/process control, output control /power, output control/investments in relations, information exchange/social relation, clan control/relational quality).

## *Results*

### *Descriptive statistics*

In order to establish the four cells according to our model, we used the two constructs, cultural closeness and product complexity, and divided the sample into four groups based on the mean value of each of these constructs. This gave us the following distribution of firms in the model.

Table 3: Distribution of sample in the model and average sales volume.

<i>Cell</i>	<i>N</i>	<i>Sales (mill NOK)</i>
Limited relations	41	600
Functional relations	41	310
Cultural relations	41	320
Complex relations	50	160

We then ran an ANOVA test to explore differences in the mean scores between the four resulting cells (see table 4). For five of the ten constructs (clan control, social relations, information exchange, flexibility and role of agent) the score differences were significant. Concerning clan control, social relations, information exchange and flexibility it appears that product complexity is the main factor explaining the differences between the cells. In other words, firms operating with complex products (functional and complex relations)

emphasise these factors more in their relations with their trading partners than firms operating in a context of simple products and low cultural distance. On the other hand, firms operating in limited relations contexts seem - to a larger extent than firms in other cells of the model - to use the agent as a mere door opener rather than on a continuous basis.

Table 4: ANOVA test for differences between means of the four cells

<i>Construct</i>	<i>Limited relations</i>	<i>Functional relations</i>	<i>Cultural relations</i>	<i>Complex relations</i>	<i>Scheffés test - <math>p \leq 0.10</math></i>
Relationship quality	1.9	1.8	2.1	1.8	
Clan control	2.1	1.8	2.3	1.8	Complex and Functional < Cultural
Process control	2.4	2.4	2.8	2.7	
Outcome control	2.6	2.4	2.7	2.4	
Social relations	2.2	1.9	2.3	1.9	Complex and Functional < Cultural
Investment in relations	2.5	2.5	2.8	2.7	
Information exchange	1.8	1.7	2.1	1.5	Complex and Functional < Cultural
Flexibility	1.9	1.5	2.0	1.5	Complex and Functional < Cultural Complex and Functional < Limited
Cooperation with agent	2.8	3.3	3.3	3.3	
Introductory role of agent	3.4	3.6	3.7	4.1	Complex and Functional > Limited

### *Testing the hypotheses*

In order to test the hypotheses we used mainly regressions where relationship quality was the dependent variable and the other nine constructs were independent variables. For each of the cells we have run three regressions: one with only the three control mechanisms (clan, outcome and process: model I), one with only the other relational drivers (model II) and one with all drivers (model III). Table 5 gives the result of this analysis. The results show that most of the equations explain a substantial part (in some instances between 40 and 70%) of the variance in relationship quality in three of the four cells (limited, functional and cultural), and between 14 and 21% in the complex relations

cell. Also the inclusion of all relationship drivers (both controls and the other mechanisms) increases the explained variance (except for that of cultural relations).

Table 5: Standardised beta coefficients in the four cells:  
Dependent variable: relationship quality

	<i>Limited relations</i>			<i>Functional relations</i>			<i>Cultural relations</i>			<i>Complex relations</i>		
<i>Model →</i>	<i>I</i>	<i>II</i>	<i>III</i>	<i>I</i>	<i>II</i>	<i>III</i>	<i>I</i>	<i>II</i>	<i>III</i>	<i>I</i>	<i>II</i>	<i>III</i>
<b><i>Indep. variable</i></b>												
Clan control	.57a		.25c	.73a		.59a	.30c		.08	.34b		.38b
Process control	-.18		-.25	-.02		-.14	.16		-.01	-.15		-.31c
Outcome control	.38a		-.01	-.07		.13	.26		.02	.31c		.27
Social relations		.70a	.68a		.37c	.28		.58a	.47b		.36c	.12
Inv. in relations		-.16	.02		-.03	.00		-.06	-.02		.03	-.19
Info exchange		.02	.05		.16	.06		.28c	.28		.12	.13
Flexibility		.32b	.23		.17	.06		.30b	.32c		.23	.28c
Participation in local marketing		-.25c	-.28b		.24	.24		.07	.06		.06	.20
Role of agent		.36b	.32b		-.12	.00		-.24	-.29c		.08	.11
F value	8607a	8823a	8092a	10988a	2727a	4630a	4831a	9118a	5201a	3640b	2055c	2064c
Adj. R <sup>2</sup>	.395	.610	.688	.461	.239	.513	.270	.603	.550	.169	.140	.210

a:  $p \leq .01$ ; b:  $p \leq .05$ ; c:  $p \leq .10$

H1a-c concerns associations between the dependent and independent variables in the limited relations cell. We receive support for H1a (introductory role of agent), and H1b (social relations are more productive than other mechanisms) and partly for H1c (investments and information are less productive relative to other cells) -see table 5. In fact, information exchange does not seem to play a role in achieving relationship quality in the limited relations cell, whereas it does so in cultural relations. On the other hand, investments in relations do not affect in any significant way the quality of the relationships in any of the cells, thus lending no support for that part of H1c. H1d, stating that relational quality is less important in the limited relations cell than in other cells, was tested in the ANOVA test (table 4) and is not supported by the data. There is actually no significant difference in the scores of relationship quality between the four cells.

H2a states that information exchange, flexibility and participation by the exporter in local marketing activities enhance the relationship quality more in the functional relations than in the limited relations cell. The main part of this hypothesis does not receive support by our data (table 5). Yet, we may conclude that the participation contributes positively (but not significantly) to relationship quality in the functional cell, whereas it correlates significantly with a negative sign in the limited relations cell, thus lending support to that part of the hypothesis. H2b stating that clan control is more important in the functional relations cell (than in the limited relations cell) receives support (see table 4).

H3 deals with relationships in the cultural relations cell. H3a anticipates that social relations and flexibility are more efficient than other relational mechanisms in this cell, and H3b states that they are more important here than in other cells. H3a receives support in our data (table 4), whereas H3b only receives scant support (table 5). It appears that social relations contribute more to relationship quality in the *limited* relations than in the cultural relations cell. On the other hand social relations contribute more in the latter than in the two other cells, thus lending partial support for this part of the H3a. Concerning flexibility, this driver is only marginally more efficient in this cell than in other cells (complex and limited). H3c stating that agents in this cell contributing on a more continuous basis enhance the relational quality receives support (table 5).

Finally H4 deals with associations in the complex relations cell. H4a and b concerning the role of control mechanisms receive partial support in our data (table 5). Clan control

correlates positively and process control negatively to relationship quality, whereas outcome control does not (at  $p \leq .10$ ). When only the control mechanisms are included in the equation (model I) the picture changes somewhat, outcome control then becoming significant (and process control not significant). Also H4c, dealing with social relations, information exchange, flexibility, investments in relations and exporter participation in local marketing is given partial support (table 5). Social relations and flexibility seem to yield positive returns (depending on what factors are included in the equations) relative to relationship quality whereas the other predictors do not have any significant impact.

Table 6: Summary of hypothesis tests

<i>H</i>	<i>Relationship</i>	<i>Sign</i>	<i>Outcome</i>	
<u>Limited relations</u>				
H1a	Introductory role of agent -> relationship quality	+	+	support
H1b	Social relations (vs other mechanisms)-> relationship quality	+	+	support
H1c	Info exchange/investments in relations (vs other mechanisms) -> relationship quality	-	mixed	partial support
H1d	Relationship quality less important in limited relations cell	<	ns	no support
<u>Functional relations</u>				
H2a	Information exchange, flexibility, participation -> relationship quality	+	mixed	partial support
H2b	Clan control (vs. limited relations)-> relationship quality	+	+	support
<u>Cultural relations</u>				
H3a	Social relations and flexibility (vs other mechanisms) -> relationship quality	+	+	support
H3b	Social relations and flexibility (vs other cells) -> relationship quality	+	ns	no support
H3c	Introductory role of agent -> relationship quality	-	-	support
<u>Complex relations</u>				
H4a	Clan control and outcome control -> relationship quality	+	+	support
H4b	Process control -> relationship quality	-	-	support
H4c	Social relations, information exchange, flexibility, investments in relations, participation -> relationship quality	+	mixed	partial support

### *Discussion*

Ten out of twelve hypotheses were supported or partially supported by our survey data. First it is noteworthy that relationship quality seems equally important in all the four cells. H1d suggested that in limited relations, this would not be the case as the vulnerability of the exporter is much less pronounced in this part of the model, given the relatively low transaction costs involved. One reason for the opposite result may be sought in the fact that - since the relationships are characterised by low performance ambiguity - it is not so difficult to obtain good relations with the local middleman. The easy transfer (relative to other cells) of local representation to alternative middlemen does not imply that relationship quality would be regarded by the exporter as less vital.

Second, clan control (or trust) is important irrespective of contingency setting. Its impact is most conspicuous for firms in the functional relations cell. In this setting the exporter needs to rely on trustworthy intermediaries that can carry out local marketing without too much interference of the exporter, solving customer related issues “there and then”. The mutual confidence and the shared values between the partners built over time will smooth the transaction of complex products and make other controls if not uncalled-for so at least less important. Unilateral controls seem less conducive to produce positive effects for relationship quality. Generally, process control yields negative or limited returns corroborating other findings (Bello and Gilliland 1997, Solberg 2006a) and outcome control seems only to work when other relational mechanisms are left out.



Third, social relations play a pivotal role for all the firms in the model. Disregarding the product offering, it seems as though social relations constitute the most important “glue” in the relationship between the trading partners, outstripping other more “operational” precursors in most of the cases. However, it is particularly firms in limited or cultural relations (with low product complexity) that emphasise this kind of social relations suggesting that relations emerging from transfer of complex product knowledge are being substituted by more affective relationship drivers in these two cells.

Investments in relations do not have any impact on relationship quality whatsoever. This does not necessarily entail that such investments are redundant; rather it suggests that they do little to improve relationship quality directly. They may however impact on other relationship mechanisms. For instance Solberg (2006a) found that unilateral controls were positively linked to such investments, thereby bringing about positive effects on relationship quality through outcome control - particularly in limited and complex relations (see table 5). Investments in relations as a trust building mechanism however seem less relevant than as a necessary relation specific investment which needs safeguarding through unilateral controls.

Also information exchange seems to have little impact on relationship quality, save for one cell: cultural relations, thus lending no support to this part of our hypotheses H2a and H4c. Even though it is strongly related to clan control (correlation of .58) and thereby trust (Anderson and Weitz 1989, Anderson and Narus 1990, Morgan and Hunt 1994) a combination of other mechanisms seems to reduce its role in creating relationship quality.

On the other hand, it comes as no surprise that information exchange is exceptionally important in cultural relations. Communication and information exchange foster trust by assisting and resolving disputes and aligning perceptions and expectations (Moorman, Deshpandé and Zaltman 1993), attributes that are particularly important in bridging cultural differences. In contrast, information exchange is significantly less prevalent in cultural relations than in other settings (complex and functional relations - see table 4), corroborating findings by Nes et al (2007) that communication is negatively associated with cultural distance. It may therefore come as a paradox that - in the cultural relations cell - firms place less emphasis on this mechanism, in spite of its positive effects on relationship quality.

Flexibility is predominantly emphasised by firms in functional and complex relations (see table 4), indicating that product complexity is seen as particularly influential in promoting this kind of relational strategy. Nevertheless, its effect on relationship quality is important in only three of the cells in the model, and *not* in the functional relations cell - thus challenging the part of H2a concerning flexibility. The explanation lies possibly in the set of relational drivers in the equation: social relations, clan control and participation by the exporter in local marketing activities seem to override the importance of other mechanisms in this setting<sup>3</sup>. Without these drivers, flexibility stands out as the most important precursor of relationship quality also for firms with functional relations.

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<sup>3</sup> Running a regression with only these three independent constructs gives an increased adjusted R<sup>2</sup> of 0.560 vs 0.513 with the whole set of constructs included. Running a regression without these three constructs reduces the adjusted R<sup>2</sup> to 0.213, but lifts the effect of flexibility (beta = 0.42; p<0.05).

Participation in local marketing activities by the exporter displays interesting patterns. It receives the highest score in the limited relations cell (though not significantly higher than the other cells), but is counterproductive in creating relationship quality. The reason for this negative link may lie in the fact that the transaction costs associated with customer relations in this setting are low and that close cooperation with the agent therefore seems redundant. This observation must also be linked to the role of the agent as a bridge builder in the introductory phases of the customer relations, indicating that the role of the exporter in its direct dealings with the market yields markedly better returns in this cell than in the other cells. In the functional relations cell, the beta score of exporter participation is quite high (not significant, though it becomes significant at the .05 level when combined with only clan control and social relations - see also footnote 3) suggesting that its contribution to the local marketing with complex products is important - supporting this part of H2a.

The models explain a substantial part of the variance in relationship quality. Model III for example explain between 50 and 70% of this variance in three of the four cells – limited relations, functional relations and cultural relations. In complex relations the independent variables only explain 21% of the variance. The dual effect of internal and external uncertainty therefore seems to greatly influence the effect of the set of relationship levers studied in this article. We may speculate why the relationship mechanisms are less effective in this particular context. To this effect we have tested whether structural factors (for which we have data) such as power balance between the partners, exporter resources, importance of focal market, relationship length or degree of

integration play a role in this environment, but to no avail. For instance, even though firms in the complex relations cell to a larger extent than the other firms operate through wholly owned or partly owned sales channels, the difference is not significant: transaction cost reasoning (Anderson and Gatignon 1986) does not seem to prevail in this situation. One possible explanation might lie in the way in which incentives work in different situations. We may hypothesise that under high performance ambiguity (product complexity and cultural distance), where agents tend to be risk averse (Eisenhardt 1989), relationship quality be enhanced by fixed salary rather than by commission.

#### *Implications for research and management*

This study has shown that different settings with two kinds of performance ambiguities (cultural distance and product complexity) influence the effects of relational strategies of exporting firms. It strengthens the argument that trust or clan control yields good returns in all settings and that social relations may serve as efficient “glue” in exporter-middleman relations. Other than that it gives nuances in the use of the repertoire of relational mechanisms.

There are two directions for further research that come out of this. First, the study needs to be complemented by other studies in other countries to validate the results from Norway. New studies should develop further some of the constructs used in the present research, in particular “Participation by the exporter in local marketing activities”, and

“Introductory role of the agent”. Second more in depth and longitudinal case studies are needed to more fully understand the relationship mechanisms between exporters and their middlemen in different settings and how these mechanisms impact on the relations with customers in the market. A cross-sectional study like the present one only scratches the surface of these relations and gives us interesting indications, but hardly a full understanding of the phenomena under study.

Managers may use these results in their own analysis of their relations with their foreign trading partners. For instance since social relations are one of the most important precursors of relationship quality - irrespective of setting, firms should be cautious when promoting sales and marketing people to new positions after just short periods of time. This prevents the possibility to build long-term relationships between key personnel of the trading partners, and thus prevents also build-up of the resources that otherwise would have been created around such relationships. When moving people within the organisation, it also suggests that not only the transition of the job to the successor is critical, but the selection of the successor him/herself. Also, rather than deemphasising social relations in the cultural relations cell (they score significantly less) possibly because it is more challenging, firms should consider ways to improve social relations, since this is the single most important lever that improves relationship quality in this setting.

Furthermore, managers should also pay attention to the importance of flexibility in their dealings with their intermediaries. This relational strategy, reflecting a problem-solving

attitude, seems to pay off in most situations. Also focus should be given to the role distribution of the trading partners. In the limited relations cell for instance exporters should not too actively involve the agent after the introduction of its products to its customer groups, and they should take a more active part themselves in the local marketing. It is vital to be aware of these mechanisms at an early stage, since contractual arrangements often specify the different roles of the players in the relationship and may lock the partners in roles that later on are counterproductive and difficult to get out of due to tactical considerations. Conversely, in the cultural relations cell, exporters should much more actively use their agents, and let them play an important role in carrying out their business transactions.

### *Conclusions*

Performance ambiguity has obvious implications on monitoring and control mechanisms of foreign sales intermediaries. Cultural distance and product complexity are two key contingency factors that imply different levels of ambiguity and that moderate the role of relational mechanisms used by exporters in creating relationship quality. Figure 2 gives an overview of the main findings of the study.

<b>Cultural distance – need for sensitivity</b>	<b>High</b>	<p><b><i>Cultural relations</i></b></p> <p>Social relations are critical; flexibility and information exchange are important; agent plays pivotal long term role.</p>	<p><b><i>Complex relations</i></b></p> <p>Clan control and flexibility are critical to relationship quality. Process control is counterproductive.</p>
	<b>Low</b>	<p><b><i>Limited relations</i></b></p> <p>Social relations and clan control are critical; agent important only in the intro phase.</p>	<p><b><i>Functional relations</i></b></p> <p>Clan control is the key to relationship quality; social relations is a supplement.</p>
		<b>Low</b>	<b>High</b>
		<b>Product complexity – need for interaction</b>	

Figure 2: Summary of the findings

Generally speaking clan control, social relations and partly also flexibility are important - albeit with various strength and various combinations - in all the cells of the model. In limited relations where ambiguity on both dimensions is low, it is first and foremost socialisation that gives rewards in terms of relationship quality, whereas in the cultural relations cell (high external uncertainty) clan control becomes insignificant in the presence of other mechanisms. In the complex relations cell the importance of socialisation seems to fade in the presence of clan controls and flexibility.

Other precursors to relationship quality are more idiosyncratically dispersed. For instance, the role distribution between the trading partners seems critical in two of the cells - limited and cultural relations, implying that in low product complexity settings

cultural differences impact on the effect of the role of the agent. Moreover, information exchange appears to enhance relationship quality only in cultural relations.

Research on exporter-middleman relations has produced a number of contributions corroborating the role of the somewhat softer relational mechanisms (Solberg et al 2006). The present article has sought to delve deeper into this material by studying the impact of performance ambiguity on the effect of a number of relational drivers. This research should be supplemented by other contributions that explore how these contingencies behave in other settings and how other contingencies may affect the role of these mechanisms.



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## Appendix

	Relation quality	Clan control	Process control	Outcome control	Social relations	Inv. in relations	Info exchange	Flexibility	Participation
Clan control	.60	-							
Process control	.14	.15	-						
Outcome control	.36	.25	.56	-					
Social relations	.56	.40	.39	.43	-				
Inv. in relations	.32	.19	.48	.56	.49	-			
Info exchange	.46	.42	.30	.28	.58	.25	-		
Flexibility	.43	.46	.19	.17	.37	.22	.41	-	
Participation in local marketing	.09d	-.01d	.08d	.03d	.08d	.14c	.08d	.03d	-
Role of agent	.06d	.10d	.25	.15d	.01d	.14d	.06d	.03d	.46

All correlations are significant at  $p > 0.10$  except for those nominated d.