# Export Channel Integration Strategy and Performance:

## A Contingency Model

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**Abstract**

Adopting the lenses of transaction cost, agency, internationalization process, and resource-based theories, we propose a contingency model to explain the link between export channel integration and performance. The contingency model resolves prior inconsistent results in the export literature regarding the effectiveness of export channel integration. The paper suggests theory-based matching strategy for four contingencies based on levels of environmental uncertainty and similarity. Export channel integration is effective under conditions of high market similarity and either low or high environmental uncertainty. Under other conditions, exporters should not integrate. We discuss these with suggestions for research, and for managers developing international strategy.

**Export Channel Integration and Performance Implications: A Contingency Approach**

### Introduction

Channel integration is defined as the degree of exporter control on upstream marketing and distribution functions. The level of export channel integration defines a particular export channel structure. The choice of export channel configuration is a complex decision that requires assessing control-risk-efficiency trade-offs. There is no conclusive evidence that a given export channel configuration leads to success. Empirical research on the impact of export channel integration on performance provides mixed results. In some cases, research shows that managers perceive that direct channels are most profitable (Koh 1991; Lee and Griffith 2004) whereas other researchers find little or no impact related to type of channel and export performance (Aulakh and Kotabe 1997; Chetty and Hamilton, 1993; Merino and Salas 2002). These conflicting results have led to the conclusion that the appropriateness of an export channel is not static and depend on the context of the business environments in international markets (Chetty and Hamilton, 1993;Leonidu, Katsikeas, and Samiee 2002; Zou and Stan 1998). Surprisingly, however, the literature is silent on how context influences decision-making and under what circumstances export channel integration pays off. The purpose of this paper is to

advance a theoretical model that clearly indicates the environmental contingencies where export channel integration enhances performance, and those that do not.

The importance of research on this topic can be justified on two accounts. At the managerial level, the increasing globalization of supply chain integration has shifted bargaining power downstream. Supply chain integration requires substantial investments in technology, dedicated infrastructure, and specialized managerial resources to participate in particular supply networks. Exporters who have already achieved operational integration lack managerial and ownership control on upstream decisions. Exporters face the decision to pursue forward integration and regain bargaining power, leverage better their specific assets, and increase margin capture. At the conceptual level, academic research offers little to no- specific guidelines as to whether exporters should integrate forward.

This paper contributes to the literature by providing guidelines as to when channel integration is effective and resolving the conflicting results of past research. We make this contribution through the integration of four different theories (transaction costs, agency, internationalization, and resource-based) that sheds light on the nature of the export channel integration decision and proposes a contingency model to explain the fit between export channel integration and exporter's contextual environment.

The paper is organized as follows. First, we define and identify different levels of export channel integration. Second, we use several theoretical lenses to explain the nature of the exporter decision to integrate channel activities. Third, we discuss two important external determinants of export channel integration: environmental uncertainty and export market similarity. Fifth, we discuss the relationship between export channel integration and performance. Sixth, we develop a contingency model and formulate hypotheses that match the export channel integration to particular export market situations. We conclude with a discussion of theoretical implications of this model, implications for exporters, and suggestions for further research.

## Export Channel Integration

Channel Integration refers to the degree of vertical integration in the exporter's supply chain. In this paper, we focus on the degree of control on exporter's upstream activities. The level of control ranges from minimum control, when intermediaries perform most export functions, to full exporter control of all functions. The level of export channel integration defines a particular export channel structure. A particular channel structure gives exporters greater or lesser control on export activities and operations. Three export channel structures representative of common industry practice are market contracts, partnerships, and proprietary forms (Anderson and Gatignon 1986; Anderson and Coughlan 1987; Aulakh and Kotabe 1997; Klein, Frazier, and Roth 1990; Osborne 1996; Rialp, Axxin, and Thatch 2002).

Market contracts provide very little control to exporters, as control is transferred to independent distributors, trading companies in home, or export markets. Market contracts demand limited resource commitment and offer low risk to the exporter. Under

partnerships, the exporter shares control and risk with other channel participants, such as import agents, other companies in export markets or the independent distributors themselves. Strategic alliances, joint ventures and other contractual agreements are examples of partnership forms that strike a compromise of efficiency, control and risks, specifying the responsibilities and rights of participants. For instance, export agents typically focus on buying and selling activities while exporters control titles and financial transactions. Under proprietary channel configurations, exporters maintain full control of all operations and can be implemented through the establishment of marketing and sales offices in the export market and in some cases with full control of wholesale and manufacturing activities.

As the level of integration requires different levels of resource commitment, the choice of export channel configuration can be framed in terms of control-risk-efficiency trade-offs (Anderson and Coughlan 1987; Klein, Frazier, and Roth 1990; Aulakh and Kotabe 1997). The increasing trend to outsource export activities to third-party providers may favor the efficiency of market contracts, but exporters may prefer controlled configurations to protect their strategic resources and competencies. Control, however, requires resource commitments and brings more exposure and risk. Next, we draw on four theoretical perspectives to explain the nature of these trade-offs and their outcomes. As each theory in itself is insufficient to capture the complexity of the decision, we integrate all perspectives in our discussion throughout the paper.

## Theoretical Perspectives of the Export Channel Integration Decision

We review four theories in terms of the firm's goals, key processes and determinants, assumptions, decision criteria, and performance implications as they relate to the export channel integration.

Transaction cost theory posits that firms internalize those activities that they can perform more efficiently, and outsource those that can be performed at a lower cost by third parties. The goal is to achieve global efficiency through the minimization of transaction costs related to contractual relationships, such as export marketing, selling, financial, or logistic export costs. These costs are influenced by the specificity of assets used in the transaction, the frequency and volume of transactions, and the level of uncertainty (Williamson 1975). The theory relies on the assumptions that 1) exporters may suffer from internal logical inconsistency in their decisions (bounded rationality) and; 2) the market cannot impose the price discipline of perfect market competition (market failure). This theory posits greater integration under conditions of high uncertainty and asset specificity. The impact of transaction cost theory determinants on entry choice has been consistent with predictions from transaction cost economics (Zhao, Luo, and Suh 2004).

Agency theory focuses on the risk exposure dilemma between principals (export manufacturers) and agents (distributors) (Jensen and Meckling 1976). The risks emanate from potential opportunistic behavior of distributors who may misrepresent information or fail to perform under contractual obligations (Frazier and Summers 1984; Peng and York 2001). The goal is to minimize agency costs. Ex-ante agency costs are related to search and evaluation processes to appoint export channels. Ex-post monitoring and enforcement costs emanate from the ability to exert effective influence on channel

members, either through legal or persuasive methods or through performance evaluations (Frazier and Summers 1984). The main assumption is the information asymmetry between exporters and distributors. The greater the information asymmetry, the greater the agency related costs and more likely that exporters will use integration. The performance implication is that cost minimization leads to better performance.

Internationalization process theory describes the evolutionary nature of the international activities and governance of firms. The theory posits that organizational learning abilities allow firms to make incremental resource commitments in successive international markets, and achieve deeper penetration of current ones. As exporters gain greater international market experience, they learn how to adapt and better manage environmental uncertainties and thus lessen risks. With lower risks, exporters are more willing to commit more resources and expand their export market base. The key assumption is that organizational learning follows market similarity. The evolutionary path of additional commitment increases with market familiarity. Greater commitments to international activities lead to greater levels of integration of international business activities. Accordingly, export channel integration should increase with international experience. As learning improves market effectiveness and efficiency, greater integration should lead to better export performance (Johanson and Wiedersheim-Pau, 1975; Johanson and Vahlne 1977).

Resource-Based Theory argues that a firm's sustainable competitive advantage is a function of its strategic resources (Barney 1986). The firm focuses on creation, maintenance, and renewal of strategic resources. Strategic resources are said to be inimitable, tacit, and rare. The goal of the exporter is to deploy its strategic resources to achieve superior performance and sustainable competitive advantage in the export market. The exporter focuses on a channel configuration that allows the replicability, transferability, and protection of strategic resources. The main assumption is that strategic resources are better protected within the firm. The decision criterion is transferability and protection of strategic assets. This theory suggests that the greater the level of tacitness of strategic resources, the greater the efficiency and protection provided by export channel integration. Moreover, possession of strategic resources should lead to sustainable competitive advantage and thus better performance.

Two external factors identified by the theories above are environmental uncertainty and similarity. We used these two constructs as important contingency variables because they are exogenous to the decision and are able to distinguish concrete situational export contexts as recommended by contingency theory (Zeithaml, Varandajan, and Zeithaml 1988). Other contingency variables could also be considered (competition, institutional environments) but are not the focus of this research. These other factors should be controlled in an empirical validation. Next, we discuss the direct impacts of these variables on the export channel integration. .

**Environmental Uncertainty**

Two types of uncertainties affect the decision: environmental and behavioral. Environmental uncertainty refers to changes resulting from external environmental factors that are exogenous and largely unaffected by the firm's actions, but which impact

firm decisions. Behavioral uncertainty refers to the inability of the firm to assess the impact of opportunistic and self-seeking behavior of different actors in a transaction. Behavioral uncertainty is endogenous and can be reduced by actions of the firm (Folta 1998).

When environmental uncertainty is low, exporters may develop contractual agreements that specify the rights and responsibilities of channel members' export activities. Several authors argue that exporters minimize governance costs through a set of incentives that align mutual goals of channel members (Bello Lothia 1995; Peng and York 2001). Under low environmental uncertainty, the costs of managing contractual relationships are manageable and satisfactory. For instance, Klein (1990) found that higher ability to monitor export channels in low levels of environmental uncertainty led to higher levels of exporter satisfaction with the channel. When environmental uncertainty is high, exporters find it increasingly difficult to identify ex-ante all possible export market scenarios and develop appropriate contingencies to each market condition (bounded rationality). Ex-post, contractual agreements need to be updated and renegotiated, leading to increased conflicts and opportunism. Faced with potentially high transaction costs, exporters may increase their export channel control to reduce conflict and improve adaptability to changing environmental conditions.

Agency theory focuses on the impact of behavioral uncertainty. This type of uncertainty is endogenous to the transaction itself, as it originates from the potential opportunism of channel partners (Williamson 1975; Peng and Ilinitch 1998). High behavioral uncertainty arises when exporters' ability to screen, select, and choose reliable and effective partners is diminished due to lack of familiarity with the export market environment. Ex-post, exporters may find it difficult to assess the level of channel members' performance, adherence to contractual agreements, regulatory protection and enforcement of laws (Bucklin and Sengupta, 1993; Stump and Heidi 1996; Woodcock, Beamish, and Makino 1994). High behavioral uncertainty in export channels leads to higher costs of monitoring, supervision and enforcement costs. When these costs are high, exporters prefer to integrate to reduce potential opportunism. Aulakh and Kotabe (1997) argue that in countries with weak appropriability regimes, exporters are better off keeping strategic and proprietary resources under full control. Chelariu, Bello and Gilliland (2006) examine the use of coercive (legal) and non-coercive (incentives) strategies of Western exporters in a highly volatile environment with weak enforceability of contractual obligations and found a greater use of legal recourse by exporters as the perceived regulatory uncertainty increased.

Klein (1989) found greater vertical control was related positively with the level of environmental uncertainty complexity, but negatively with uncertainty dynamics. Auklah and Kotabe (1997) found that higher levels of perceived environmental uncertainty were associated with higher levels of shared control in export channels.

Both transaction and agent theories posit that under conditions of high uncertainty, exporters may find that high transaction costs exceed the efficiency gains of using independent channels and therefore prefer to integrate.

**Environment Similarity**

Environmental similarity denotes the extent to which the relevant export market context is similar to the exporter's home market. The export market context describes the idiosyncratic ways of doing business in a particular country. The context includes dimensions such as business practices, regulations, idiosyncratic consumer habits, and language and culture. The concept of distance between the home and target foreign country environment under a variety of terms have been a key explanatory factor in international business theory and a frequent variable in empirical research (Hofstede 1980; Kogut and Singh 1988; Johanson and Vhalne 1977; Johanson and Wiedersheim-Paul 1977; Stottinger and Schlegelmich 1998; Shoham, Rose, and Albaum 1995). The conventional prescription is that the greater the difference between these environments, the higher the risk and thus, the lower the exporter's ability to operate effectively and efficiently, the lower the willingness to commit resources (Chelariu, Bello, and Gilliland 2006), and the lower the export market penetration and performance (Leonidou, Katsikeas, and Samie 2002; Sousa, Martinez-López, and Coelho 2008).

International process theory prescribes that firms increase their commitment to international markets because of greater knowledge and experience. According to this theory, firms select markets and entry strategies by initially entering countries that are close in "psychic distance" and after gaining experience expand successively into markets with greater psychic distance. The firm's entry strategies shift from exporting to sales subsidiaries and eventually manufacturing. The "stage" process strategy reduces environmental uncertainty and facilitates learning (Johanson and Vahlne, 1977). If the export channel integration were to follow the "stage" process, we would expect to find greater levels of export channel integration when perceived environmental similarity is high, and conversely less integration when country environments are perceived to be different.

Resource-based theory argues that firms' competencies reside not only in specific assets but also in human resources and specialized routines related to business activities. These strategic assets, developed in a given context, may not be replicable or valuable in other international contexts. Furthermore, some resources are context-specific and others are more fungible. Fungible resources can be profitably applied to all contexts and geographies (Anand and Delios, 2002). Context specific resources have a limited value outside their context even if they can be easily transferred. In transferring competencies to international markets, firms suffer both an erosion of rent earning potential and an increase in adaptation costs in the new environment (Kogut and Singh, 1988). Tallman (1991) suggests that firm-specific resources that are compatible with characteristics of host markets are likely to generate greater economic returns. Thus, the rent generating potential of internal competencies and the offsetting adaptation costs will be enhanced by the similarity of context in the target country. Resource-based theory suggests that perceived environmental similarity enhances the likelihood of export channel integration.

Transaction cost theory is silent with respect to the effect of context on transaction and agency costs. We argue, however, that greater similarity with the export country culture and legal environments enhances information about the market and channel behavior.

Greater market insights may reduce search, negotiating, monitoring, and supervision costs. Lower transaction costs reduce the incentive to integrate export channels. Thus, transaction cost theory may contradict the views of internationalization and resource-based theories.

Empirical support for the relationship of environmental similarity and export channel integration is mixed. Jaffe, Nebenzahl, and Kasper (1990) found that as firms progress along the export development path, the perceived level of complexity of the export market decreases. Huang and Hsu (2003) found a positive association between greater export channel integration and international experience among Taiwanese exporters. Al-Obaide and Gabrielsson (2002) comment that internationalization experience of Finnish companies appeared to have increased the use of direct and multiple channels. Chan and Mun (1995) provide evidence of this path-dependent strategy in his study of the adaptation of the channel structure of Hong-Kong clothing manufacturers. Over time, these exporters have increasingly employed forward integration strategies by investing in sales and manufacturing subsidiaries in Mainland China. The impact of market similarity on export channel strategy is also revealed in two studies of Spanish exporters (Campa and Guillen 1999; Rialp, Axxin, and Tatch 2002) that conclude that firms perceiving a certain lack of knowledge while operating abroad rely on independent channels, while those feeling themselves sufficiently aware of environmental conditions opt for a certain level of channel integration. Similarly, Osborne (1996) found that the majority of New Zealand exporters use integrated channels in exporting to Australia, the UK, and the U.S., and non-integrated channels in exporting to non-western markets. Merino and Salas (2002) found that large Spanish exporters use greater channel integration when exporting to non-OECD countries, presumably countries of greater cultural distance.

## Export Channel Integration and Performance

We now turn our attention to the relationship between export channel integration and performance from the perspectives of the theories reviewed before.

Transaction cost theory suggests that success is achieved through the alignment of channel configurations with export market conditions that meet efficiency expectations and protection of specific investments. Efficiency maximization of channel transactions and operations leads to better performance. We would expect that exporters that use the correct alignment based on transaction cost theory would outperform those that do not.

Resource-based theory focuses on maximizing value creation through replication, transfer and protection of strategic resources. As greater control through export channel integration permits greater access to market information and greater ability to adapt to changes in export markets, transfer and replication is enhanced with channel integration. Export strategy adaptability has been found to be positively associated with performance (Lee and Griffith, 2004). Greater control, however, requires greater commitment to exports. Resource commitment has also been positively related to export performance (Katsikeas 2000; Stump and Heidi 1998). Strategic resources deployed through integrated channels require high commitments and provide greater strategic adaptability. The

greater the commitment and strategic adaptability, the greater the effectiveness and growth performance expectations of exporters.

Internationalization process theory focuses on entry market strategies and export market selection that minimize risks and enhance organizational learning. The performance implications of the theory are derived from lower costs of marketing strategy adaptation and greater replication effectiveness when exporters enter similar markets, as channel integration is said to be a more appropriate strategy when home and export markets are similar. Based on internationalization process theory, we would expect that the alignment of export channel integration configuration with levels of market similarity leads to superior export performance.

The international entry strategy literature on firm performance provides strong evidence that entry strategy is related to firm performance (Li and Guisinger 1991; Woodwock, Beamish, and Makino 1994). The literature, however, lacks of consensus on the systematic superiority of one particular mode. One reason for this is that most studies have focused on the superiority of one entry strategy over another. Canabal and White's (2008) review of the literature found the most common approach was a dichotomous contrast of one type of entry mode versus another (93 studies). The single contrast approach contributes little to our understanding of the performance implications of all entry strategies. There is no guarantee that a strategy selected by one firm is universally superior in all contexts and across all firms. Several reviews of the literature have advanced three issues that need to be resolved to advance our understanding of this complex relationship: endogeneity of the decision due to self selection, alignment with theory-predicted entry strategies (Shaver 1998, Brouthers and Hennart 2007), and contingency models (Canabal and White 2008). In this paper, we focus on addressing the third issue only.

The export market literature does not provide conclusive evidence that a given export channel configuration leads to success. Researchers argue that the link is difficult to predict (Madsen 1987), or that integration by itself is no guarantee of superior performance (Aulakh and Kotabe 1997). In some cases, research shows that managers perceive that direct channels are the most profitable (Koh 1991; Lee and Griffith, 2004) whereas other researchers find little or no impact related to type of channel and export performance (Aulakh and Kotabe 1997; Chetty and Hamilton 1993; Merino and Salas 2002). Leonidu, Katsikeas, and Samie (2002) find that the use of sales representative offices is positively related to export sales intensity and the use of distributors has a weak association with performance. Madsen (1987) finds that small firms operating in distant markets appear to be successful when exporting through agents and distributors whereas larger firms operating in close markets tend to be successful with their own export channels. These conflicting results have led to the conclusion that the appropriateness of an export channel is not static and depends on the context of the international business environment (Chetty and Hamilton, 1993;Leonidu, Katsikeas, and Samie 2002; Zou and Stan 1998). The next section develops a contingency approach to explain the export channel integration and performance relationship.

**A Contingency Approach to Export Channel Integration and Performance Relationship**

Contingency theory posits that there is no one best strategy related to performance (Hofer 1975).
This view is supported by proponents of contingency approaches argue that exporters should fit particular export strategies and align resources with the conditions of a specific export market (Oszomer and Prussia 2000; Xu, Cavushil, and White 2006; Cadogan, Cue, and Li 2003; Yeoh and Jeong 1995; Shoham, Evangelista, and Albaum 2002; Stump, Athaide and Axxin 1998). Past research using a contingency approach has investigated the performance impacts of the use of organic or mechanistic and entrepreneurial or adaptive export strategies under hostile or benign environments (Yeoh and Jeong 1995; Robertson and Chetty 2000), differences in export strategic positioning (analyzers, defenders and prospectors) and differential exporting strategies for different geographical regions (Lado, Martinez-Ros, and Styles 2004: Styles and Ambler 2000).

Early applications have focused on the antecedents of different export strategies that supposedly lead to improved export performance. Shoham, Evangelista, and Albaum (2002), for instance, analyze how firm competencies affect export performance within a given strategy and show that exporters using a given strategy should focus on particular firm competencies to be successful. Cadogan, Cue, and Li (2003) explored the impact of market orientation on export performance moderated by competitive intensity and technological turbulence among Hong Kong exporters. The authors found that market orientation had a strong positive impact on export performance under conditions of high technological turbulence and competitive intensity. In conditions of low turbulence, however, the extra costs of marketing orientation do not pay off. Yeoh and Jeong (1995) use the structure-conduct-performance paradigm to explore the fit between entrepreneurial (risk taking) and conservative (risk adverse) export strategies, mechanistic and organic channel structures, and benign and hostile export environments. Mechanistic channel structures are characterized by rigid protocols among channel members, whereas organic ones allow greater flexibility and collaboration. The authors argue that entrepreneurial exporters are more likely to be successful by pursuing organic export channel structures in hostile export environments. Conservative exporters will achieve higher performance using mechanistic channel structures in benign export environments. Balabanis and Spyropoulou (2007) found that entrepreneurial exporters increase performance when operating in dynamic, hostile and geographically diverse environments whereas adaptive exporters thrive in economically similar and non-hostile environments. Ling-yee and Ogunmokun (2001) found that when channel relationship and market dynamism are strong, close monitoring of promotion and distribution activities bring about enhanced export performance.

There is scant research utilizing a contingency approach to study the impact of channel integration on performance. In one of the few studies, Aulakh and Kotabe (1997) found that exporters that conformed to their conceptual model outperformed those that did not conform to these prescriptions. Given the importance of fit with the contextual situation, we advance a contingency framework that explores the nature of the strategic fit with

four contingency scenarios based on two contingency variables: environmental uncertainty and similarity. We use these exogenous variables to formulate a model of situational contexts that relate to the export channel integration decision (Ziethmal, Varadaranjan, and Zeithmal 1988).

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***A Contingency Model of Export Channel Integration and Performance***

We now proceed to develop a set of hypotheses regarding the contingency impacts of these two determinants on the relationship between export channel integration and performance. The use of a different strategy in a given situation leads to a misfit, resulting in a reduction in export performance. Figure 1 shows the proposed contingency model and examples of export strategies that fit in each situation. A discussion of strategic fit in each cell follows.

[INSERT ABOUT FIGURE 1 HERE]

***High Similarity and Low Uncertainty Environments***

The main assumption of this contingency scenario is that in similar contexts, exporters are more likely to replicate their competencies with success and at a lower cost, a finding frequently supported by several studies (Lee 1998; Shoham, Rose, and Albaum 1995). The advantages of environmental similarity, matched with the low risks of low uncertainty, produce the safest and most predictable environment for exporters. Lado, Martinez-Ros, and Styles (2004) argue that in culturally similar markets, exporters reduce the risk of failure. High environmental similarity suggests that exporters can develop effective strategies that meet market requirements with their own competencies. With this assurance, an exporter might not need a local partner to help them navigate the intricacies of the local market. From a resource based theory perspective, we argue that export market similarity allows efficient transfer and replication of intangible resources and skills to the target market. Low environmental and behavioral uncertainty indicates low transaction and agency costs leading to a low probability of opportunistic behavior. Under these circumstances, the exporter will be more willing to commit resources and develop specific assets to guarantee success. For these reasons, we argue that exporters are more likely to use a high level of channel integration in this context. Therefore, we advance the following hypothesis.

> H1: In high similarity and low uncertainty environments, exporters using proprietary channels are more likely to perform better than those using other channel configurations.

***High Similarity and High Uncertainty Environments***

Transaction cost and agency theories posit that search, negotiating, and opportunistic costs increase with greater levels of environmental uncertainty. As these costs increase with uncertainty, exporters are unwilling to commit resources to the foreign venture or if they do, they are reluctant to share resources with channel members that they do not control (independent distributors). The relationship between higher levels of uncertainty and performance, however, has found weak empirical support. In some cases, authors have hypothesized a negative relationship and have found a positive one (Raven, McCullough, and Tansuhaj 1994). Other studies find a positive relationship between uncertainty and performance (Das 1994). Rasheed (2005) finds that Indian SME exporters exhibit high revenue growth when using equity modes in risky environments.

Lages and Montgomery (2005) find that the level of competition in the export market is positively associated with performance, leading to the interpretation that firms tend to relax excessively in markets that are easier to operate in (Sousa, Martinez-López, and Coelho 2008). Chan and Mun (1995) find that Hong Kong clothing exporters seek more control through forward integration to be closer to their target customers in Mainland China and East Asia. Exporters achieve greater control by establishing overseas sales offices and internalized export departments (Chan and Mun 1995). We argue that the moderating effects of environmental similarity allow exporters to be more effective and efficient in deploying their strategic resources and skills and increase control of operations through channel integration. Exporters' increased control allows them strategic flexibility to adjust to turbulent environment conditions, lower transaction costs and hedge risks. Therefore, we posit the following hypothesis:

> H2: In high similarity and high uncertain environments, exporters using proprietary channel structures are more likely to perform better than those using other channel configurations.

***Low Similarity and Low Uncertainty Environments***

In low similarity environments, exporters are not effective in obtaining and interpreting information on export market requirements and conditions. In these environments, exporters lack market information and may have to rely on channel members to compensate for their information/knowledge liability. Under these conditions, exporters may make the wrong selection of strategy and/or channel partners (Achrol and Stern 1988). Therefore, exporters tend to rely on partners to adapt marketing strategies and manage the channels. When behavioral uncertainty is low, opportunistic behavior is reduced and agency costs are low. All of these arguments favor the use of independent distributors. For this reason, we hypothesize that exporters in this cell will enhance performance by using independent distributors. Thus, we postulate the following:

> H3: In low similarity and low uncertainty environments, exporters using independent distributors will perform better than those using alternative channel structures.

***Low Similarity and High Uncertainty Environments***

This cell portrays the worst scenario performance in export markets, compounding the disadvantages of lack of similarity and the risks of high uncertainty. Higher behavioral uncertainty results in increased distributor opportunism and higher transaction costs. Li (2003) argues that in emerging markets such as China, weak legal infrastructure renders distribution contracts meaningless. With low environmental similarity, exporters are unwilling to commit further resources not only because of their inability to predict market conditions (Lado, Martinez-Ros, and Styles 2004) but also because they do not trust intermediaries (Li 2003). Rather than relinquish control, the exporter might want to co-opt independent distributors with either strategic alliances or joint ventures. If this alternative is not possible, exporters may prefer to use agents for activities where market similarity is more important, such as product modification, marketing and selling activities, and retain other functions where they may have competencies (logistics) under control. For these reasons, we advance the following hypothesis:

H4: In low similarity and high uncertainty environments, exporters using partnerships or agents in export channels are more likely to achieve better performance than those using alternative channel structures.

In the final section of the paper, we present our conclusions, limitations, implications for export managers, and suggestions for further research.

## Discussion

### *Conclusion*

Findings from the applications of the above theories and frameworks to explain export channel integration and performance are mixed. Some studies show confirming results, some show disconfirming results, and some show insignificant results. As has been pointed earlier, a generalization cannot be made easily about the relationship between channel integration and its antecedents, and between channel integration and performance.

The proposed contingency framework provides a better perspective to explain the relationship between export channel integration and performance. The model prescribes that the type of export channel integration and subsequent performance will depend on how well the firm fits its competencies to a given export market environment. We argue that environmental similarity and uncertainty are two relevant exogenous variables that exporters should focus on. Further, the moderating effects of two levels (low and high) of the two factors (uncertainty and environmental similarity) interact to determine the appropriateness of channel integration strategy and the ensuing performance level. The level of integration in each cell is not presented as the "best" option but as an appropriate level of integration, given market conditions and the criterion of achieving a good strategic fit. The assumption is that the better the fit, the better the performance. As export channel decisions cannot be easily changed, the more market centric approach the firm takes in making its decisions, the better it will be able to handle market developments to improve its performance.

The major contribution of our paper is the theory-based matching strategy for four contingencies based on levels of export market uncertainty and similarity:

i. Low uncertainty-low similarity= Independent Distributors
ii. Low uncertainty-high similarity= Export Agents, Proprietary Channels
iii. High uncertainty-low similarity= Joint Ventures, Strategic Alliances
*iv.* iv. High uncertainty-high similarity= Proprietary Channels

### *Limitations*

We recognize that while internationalization process theory could be used to investigate the development over time of export channel integration, our model does not attempt to account for organizational learning over an extended period. The research required to undertake a study of this nature would be modeled quite differently, leading to discovery regarding the incremental approach to channel integration. While the internationalization process theory stresses that it is likely that a firm begins exporting through an independent intermediary and ends with a wholly owned subsidiary, this would not take

into account the determinants of uncertainty and environmental market similarity that we have discussed. Further limitations exist and are addressed in the suggestions for future research section.

***Implications for Export Managers***

Our paper offers several implications for export managers, these relate to the importance of export channel integration decisions, strategic flexibility and fit, and thinking outside the box.

Export channel integration decisions directly lead to the development of competitive advantage for global supply chains, which must balance integration and flexibility in a dynamic environment. Exporters should consider strategic options for channels depending on different market demands and environmental factors. Therefore, having a portfolio of options for export channel integration enables the exporter to develop experience with the three levels of channel integration, proprietary, partnerships and wholly owned, and adopt the appropriate channel for each market, and to consider different alternatives over time as markets and environments change. For strategic flexibility to be concurrent with strategic fit, matching strategic options to given export market environments for export success is a challenging decision. Knowledge and expertise in what strategies fit particular export environments and identifying changes in markets and environments becomes a distinctive competence of the exporting firm, directly relating to competitive advantage.

While conventional theory suggests maintaining strategic flexibility in high uncertainty environments, the conceptual model urges exporter to consider the unconventional to integrate (reduce flexibility) in high uncertainty environments when environmental market similarity is high. Thus thinking outside the box leads to the creation of competitive advantage in export channels.

***Suggestions for Further Research***

The model and propositions proposed in this paper are part of a family of contingency models. Further model building should not only take the form of adding more moderating variables but should explore a variety of model specifications. Moderation is only one approach that could be considered in analyzing the impact of external variables on the export channel integration and performance relationship. One could possibly model the mediation impact of these variables through export channel integration or even hypothesize that these external variables affect directly both export channel integration and performance. Further moderating variables beyond export market uncertainty and environmental similarity should be considered. Other external factors identified in the literature that may be related to the export channel integration-performance relationship include export market attractiveness (Kaynak and Kuan 1993), industry technological intensity (Hozmuller and Stottinger 1996) and export market barriers (Zou and Stan 1998).

Further model building can also extend this theoretical model fit. As alternative theoretical models of the export channel integration-performance relationship are developed, researchers could further advance the basic premise that there are many alternative export channel configurations that lead to export success. Efforts to develop a

more comprehensive theoretical model will improve our understanding of the export channel integration-performance relationship.

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| | | Environmental Uncertainty | |
|---|---|---|---|
| | | Low | High |
| Market Distance | High | H1 Proprietary Channels Agents | Proprietary Channels |
| | Low | Independent Distributors | Joint Ventures Strategic Alliances |

Figure 1
Export Environment Contingencies and Strategic Fit