Management & Marketing (2010) Vol. 5, No. 1, pp. 19-38.

DETERMINANTS OF EXPORTING CHANNEL INTEGRATION: AN INTERACTION APPROACH

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Abstract. *The framework for channel integration in international market has steadily evolved over time since late 1980s in response to new theoretical and empirical developments. By providing a comprehensive review of channel integration studies, we present a conceptual framework with an attempt to assimilate the major, generalized forces influencing channel selection in international market. The conceptual framework is then being expanded by integrating factors from an „interaction approach" to account for the potential effect of channel relation variables on the channel integration decision making.*

Keywords: channel integration, exporting channel structure, interaction approach

1. Introduction

One important decision to make by a domestic manufacturer who decides to introduce the company's product in a foreign market is: should the new product be distributed indirectly (integrated) or directly (independently)? The alternative channel structural arrangement should be considered before initial entry into a foreign market since distribution structures are difficult to change and the wrong decision may lead to long-lasting inefficient performance. Anderson and Coughlan (1987) show that new products tend to enter existing channels and the new manufacturers tend not to change, even from poor-performing channel members, because they do not want to disrupt the customer loyalty that has been established by the existing channel. Bello and Williamson (1984) again highlight the importance of channel choice and the structure of that channel in developing a marketing strategy and show that the magnitude of the success a firm enjoyed in exporting is significantly influenced by the (formal) structure between channel members.

Most of the empirical research in the channel literatures has centered around the management of ongoing dyadic channel relationships rather than on the structure of the channel. Interest in channel integration issues has rising among channels researchers in late 1980s, in part because of the development of transaction cost analysis by Williamson (1975, 1985). Important empirical studies on channel integration have been performed based on transaction cost analysis at the beginning of the investigation. However, TCA alone fails to explain the variation in the degree of channel integration. The recent trend takes a more eclectic perspective of the issues involved. Accordingly, some researchers have questioned the dominant economic rationale-based paradigm and sought to integrate traditional efficiency considerations with strategic, behavioral, and other noneconomic considerations. As a result, the

literature on channel integration today represents a rich variety of perspectives and disciplinary paradigms.

In spite of the this growing attention, channel integration research, and in particular, channel integration research focusing on international market, still remains very fragmented and is concerned with seemingly unrelated considerations. In face of this concern, the paper attempts to serve two main functions: to provide a conceptual framework to synthesize a number of factors influencing channel integration decision in international market from several different perspectives which have been covered by the extant research; and to identify research gaps and potentially promising relationships that need to be investigated in the context of current global dynamics. In particular, the paper takes a new orientation: Interaction Approach, to highlight the important relations between channel integration and interaction variables: trust, mutual dependence and conflict.

The article is organized as follows. In the review section, we develop our classificatory framework for categorizing extant research wherein we examine the various perspectives that have been considered. The review is then followed by propositions build upon the „interaction approach" for expansion of the conceptual framework. The last section concludes.

2. Literature Review

2.1. Direct (integrated) vs. Indirect (independent)

The types of organizational structure involved in distributing products into the foreign market can be viewed as a channel integration continuum, with broadest classified into indirect exporting and direct exporting modes or into integrated versus non-integrated modes at one and the other extreme. Between the two extremes, a continuum of intermediate modes available including such forms as strategic alliances or shared ownership of assets through joint ventures (Anderson & Gatignon, 1986).

Many exporters may resort to different combinations of the features of the direct and indirect distribution systems and design their own international channel of distribution, which would be an optimum solution to their specific situation (Ramaseshan and Patton, 1994).

Root (1964) stated that the most basic distinguishing feature between the two channel alternatives is determined by where the second channel (first middleman) is located. If the second channel is located in the producer's country, it is considered an indirect channel; whereas, if the second link in the channel is located in the buyer's country, the channel is defined as a direct channel. Even though independent middlemen or agents/distributors may have been used, if they are used in the buyer's country, the channel is considered to be direct (Root, 1964). Lilien (1979) classified firms' channel structures based on the percentage of equity that they held in the distribution organization(s). Anderson and Coughlan (1987) defined distribution via a

company-owned distribution channel (company sales force and company-owned distribution division) as an integrated channel structure, while contract distribution to an independent organization (outside sales agents and distributors) is described as an independent channel structure. John and Weitz (1988) classified firms' channel structure based on who had the claim right to residual profits. Consistent with the classification used by Root (1964), Albaum et al. (1989) distinguished direct and indirect channels by the location of the second channel. Klein and Roth (1990) suggested four types of international channel arrangements: market mode, intermediate mode, hierarchy (domestic) mode and hierarchy (foreign) mode, representing three points increasing vertical integration, and consequently greater commitment, along a forward integration continuum. The above five different dimensions of channel classification are summarized in Table 1.

Table 1

The differences between direct (integrated) and indirect (independent) channel structure

Researcher	Dimension	Indirect channel	Direct channel
Root(1964)	1. Location of second channel	Second channel is located in producer's country	Second channel is located in buyer's country
Lilien(1979)	2. The percentage equity firms held in the distribution organizations	Equity up to 50%	Majority ownership (>50%)
Anderson & Coughlan (1987)	3. Who perform the marketing and distribution functions	Contract distribution to an independent organization	Distribution via a company- owned distribution channel
John & Weitz (1988)	4. Who has the claim to residual profits	Exclusively the manufacturer does not claim the residual profit	Only the manufacturer has claim to residual profits
Albaum, Strandskov, Duerr & Dowd(1989)	1. Location of second channel	Exporter uses independent organizations located in the producer's country	Exporter sell directly to an importer or buyer located in a foreign market area
Klein & Roth(1990)	5. Degree of vertical integration (commitment)	Market mode, intermediate mode, hierarchy (domestic) mode and hierarchy (foreign) mode. (greater vertical integration and commitment)	

Given the variety of specific channel structures and arrangements, which are typically practiced in today's global marketing efforts, it is somewhat difficult to standardize channel structure classifications (Ramaseshan and Patton, 1994). Researchers generally choose one of the above classifications in their studies so that the classification is relevant to and appropriate for particular research theme or empirical setting.

2.2. Conceptual framework of exporting channel integration

The choice between an integrated or independent distribution channels to serve a foreign market is a complex issue. We cannot possibly capture all the factors that contribute to a particular integration decisions; however, researchers have endeavored to describe major, generalizable forces influencing channel selection.

Figure 1 is proposed as a conceptual classification of the perspectives that have been explored in channel integration research to date. Various constructs affecting the exporting channel integration decision are categorized and presented under related central perspectives.

The central perspectives presented in the Figure 1 are not absolutely mutually exclusive and in cases are overlapping. This is to some extent unavoidable. In the next section, a brief discussion of the central perspectives will be presented, and an overview of the various variables contained within these central perspectives and the impact of these variables on the channel integration in international market will be provided. Table 2 lists the important studies on exporting channel integration under review in a time sequential order. For each study, the underlying central perspectives, channel measurement, sample scope and key ideas/findings are identified.

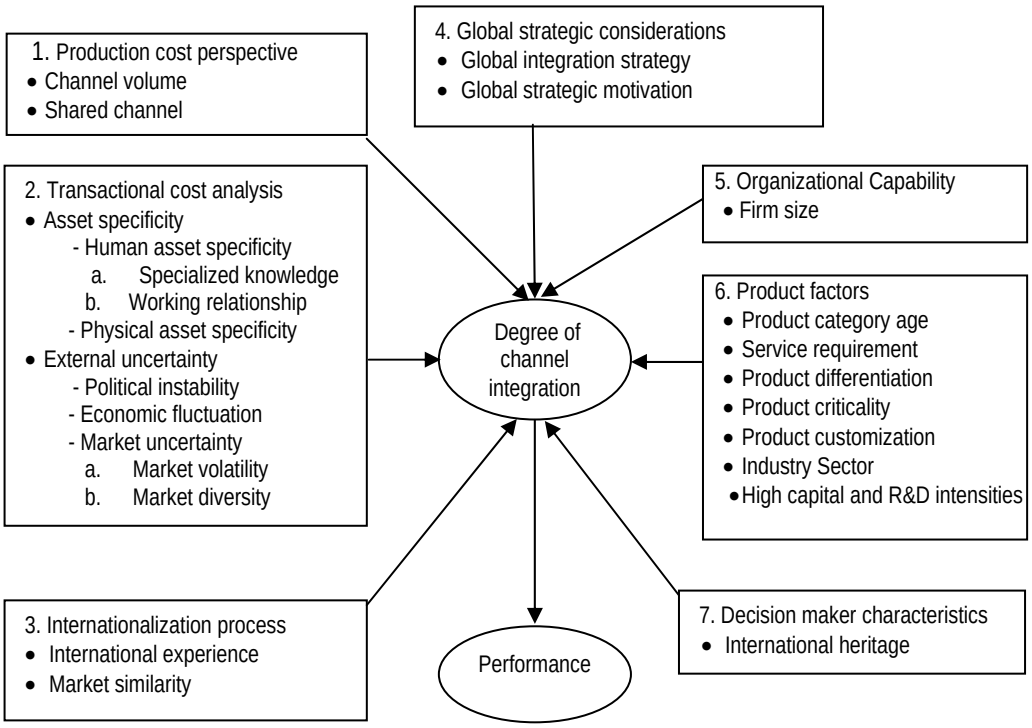


Figure 1. Conceptual framework of channel integration

2.2.1. Production Cost Perspective

Production cost refers to the costs of performing various distribution functions. The extent to which a firm should perform integrated marketing-distribution functions has been traditionally explained by production cost argument (Stern and El-Ansary, 1988). The assumption has been that all firms desire more control, which leads to a preference for integration, but that such arrangements will not be feasible unless the associated fixed costs can be spread over a large volume of business. Previous empirical research in examining the effect of production cost on channel integration choice has produced various results from positive relationship (Lilien, 1979; Klein et al., 1990; Osborne, 1996; Huang & Hsu, 2003), no significant relationship (Anderson, 1985; John & Weitz, 1988), to negatively correlated relationships (Ramaseshan & Patton, 1994).

Table 2

Summary of Study Characteristics

Study	Center Perspectives	Channel Measurement	Sample	Key ideas/findings
Lilien (1979)	1,4	2	Fortune 500 firms	Support economies of scale interpretation. The level of product differentiation is positively related to degree of channel integration.
Anderson (1985)	1,2	3	US electronic components Industry	Sale volume has no significant effect on channel integration choice. Behavior uncertainty and the interaction of asset specificity and environmental uncertainty are positively related to the use of in-housesales force. In-house sales force is more common for service-intensive products.
Coughlan (1985)	2,6	3	US semiconductor firms	Product substitutability is inversely related to the integrated channel structure. Marketing integration is not always the profit maximizing channel structure.

Study	Center	Channel	Sample	Key ideas/findings
	Perspectives	Measurement		
Anderson & Coughlan (1987)	1, 2, 4	3	US semiconductor firms	Support for the positive relationship between asset specificity and the channel integration. The level of product differentiation is positively related to degree of channel integration.
Gatignon & Anderson (1988)	2	N/A	Foreign subsidiaries of US multinational corporation	Asset specificity is positively related to the percent of equity ownership, whereas environmental uncertainty is negatively related to the percent of equity ownership.
John & Weitz(1988)	1,2	4	Manufacturers of industrial Product	Asset specificity and uncertainty have positive effect on forward channel integration choice. Sale volume has no significant effect on channel integration choice.
Klein (1989)	2	5	Canadian exporter	Asset specificity, complexity and transaction frequency have positive effect on vertical control of export channel.
Klein & Roth(1990)	2	5	Canadian manufacturing Exporters	Asset specificity moderates the impact of experience and psychic distance on the degree of integration in export market.
Klein, Frazier & Roth(1990)	1,2	5	Canadian exporters	Asset specificity is positively related to the level of channel integration, whereas. Volatility of environmental uncertainty has positive impact on the level of channel integration. Support for the impact of production cost on channel choice.
Hill, Hwang & Kim (1990)	Eclectic (2,4)	N/A	N/A	Propose eclectic theory (strategic, environmental, transaction cost factors) to explain MNC's entry mode decision behavior. Different variables suggestdifferent entry mode, trade-off is involved.

Study	Center	Channel	Sample	Key ideas/findings
	Perspectives	Measurement		
Kim & Daniels (1991)	1, 2,3,6,	3	Foreign metal and machinery manufacturers in US	Specialized knowledge, international experience, sales volume, service level have positive impact on channel integration. Age of product has negative impact on integration.
Kim& Hwang (1992)	Eclectic (2,4)	N/A	US MNCs	All variables yield mixed results. The eclectic framework represents a reasonable way to explain MNC's entry mode decision.
Ramaseshan & Patton (1994)	1,3,6	1	Small business exporters in water filter and purification Industry	Sales volume of export is negatively correlated with integration choice. Product service level is positively associated with channel integration.
Majumar & Ramaswamy(1995)	2,5,6	3	Manufacturing firms serving international market	Product criticality, product customization, and auxiliary service have biggest positive impact on channel integration.
Osborne (1996)	1,2,4,6	3	New Zealand SMEs	Sales volume is the single most important factor in deciding channel integration. Find little support for relationship between service level and channel integration, but argues that the findings still show a positive association between service level for certain product types. Find no relationship between competitive knowledge and channel integration. Good working relationships with distributor has positive impact on channel integration. Market volatility has negative impact on channel integration. Some support for the relationship between cultural similarity, product differentiation and channel integration. Political factors affect channel integration decision.

Study	Center Perspectives	Channel Measurement	Sample	Key ideas/findings
Aulakh & Kotabe (1997)	Eclectic (2,4,5)	5	Fortune 500 industrial firms	Country risk is negatively related to channel integration. Global integration and differentiation strategies are positively related to channel integration. International experience is positively related to channel integration. Asset specificity is negatively related to channel integration. Degree of channel integration is not related to performance. But using the appropriate level of integration has positive performance implication.
Rialp, Axinn & Thach (2002)	1,3,4,5,6	5	Spanish exporters	Firm size, sales volume, product differentiation and high level of service have positive impact on channel integration. Knowledge specificity and volatility of external uncertainty affect channel integration positively. Industry sector has impact on channel integration.
Huang & Hsu (2003)	1,2,3,4	5	Taiwanese small- & medium-sized exporting companies	Channel volume, human asset specificity, volatility of environment and international experience are positively related to channel integration. Strategic motivation has positive influence on channel integration, but differentiation strategy has negative effect on forward channel integration choice.

Note: Numbers in column central construct corresponds with numbers in Figure 1.
Numbers in Channel Dimension corresponds with numbers in Table 1.

2.2.2. Transactional Cost Analysis

TCA has been the major theoretical base for the channel integration investigations. The basic premise of TCA is that the firm will internalize activities that it is able to perform at lower cost and will rely on the market for activities in which other providers have an advantage (Klein et al., 1990). The decision maker is supposed to be boundedly rational and sometimes displays opportunistic behavior (Anderson, 1997).

For exporting firms, the critical factors that make market exchange difficult, giving rise to high transaction costs, are the *asset specificity* and *external uncertainty* surrounding the transactions (Anderson & Gatignon, 1986; Klein et al., 1990).

Asset Specificity. Asset specificity refers to the extent to which specialized investments are needed to support a transaction (Williamson, 1981). When substantial "transaction-specific assets" accumulate, and the ability of the market to curb the opportunistic tendencies of outside intermediaries is limited, hierarchical exchanges are likely to be preferred because opportunism can be combated within the firm through the exercise of legitimate authority, the monitoring of behavior, and the offering of more varied incentives (Klein et al., 1990). Studies examining the asset specificity focus on the impact of specialized knowledge on channel integration, and provide mixed results from positive relationship between specialized knowledge and integration (Anderson, 1985; Anderson & Coughlan, 1984; John & Weitz, 1988; Klein et al., 1990; Kim & Daniel, 1991; Rialp et al., 2002 and Huang & Hsu, 2003), no significant relationship (Osborne, 1996), to negatively correlated relationship (Aulakh & Kotabe, 1997).

External Uncertainty. In the original formulation of transactional costs analysis, Williamson (1985) considered external uncertainty as a condition that makes optimal contracting unrealistic. Thus, when faced with external uncertainty, firms are better off internalizing the transaction by vertically integrating to allow the absorption of uncertainty through specialization of decision making within the firm (Aulakh & Kotabe, 1997). This view is in contrast to the theoretical position held by some organizational theorists, who argue that looser structures are more effective under conditions of high external uncertainty because a flexible organization is better able to adapt to changing circumstances (Pfeffer & Salancik, 1978). In general, the diversity of uncertainties faced by firms in foreign markets necessitates the balancing of control and flexibility in integration decisions.

Results relating to the external uncertainty have been mixed. Only John and Weitz (1988) found a significant, positive relationship between external uncertainty and the level of channel integration. Anderson (1985) found that the relationship is unpredictable. Again negative relationships were found in some other studies (Osborne, 1996; Aulakh & Kotabe, 1997 and Rialp et al., 2002).

2.2.3. Internationalization process

The key features of the internationalization process theory are well-known: 1) that firms develop their activities abroad over time and in an incremental fashion based on their knowledge development, and 2) that this development is explained by the concept of psychic distance, with firms expanding first into markets which are psychically close, and into more „distant" markets as their knowledge develops (Johanson & Vahlne, 1990). *International experience* and *market similarity* are the two most commonly used constructs relating to internationalization process theory in the channel integration analysis.

The positive relationship between international experience and channel integration has been widely supported by the literature (Kim & Daniels, 1991; Osborne, 1996; Aulakh & Kotabe, 1997 and Huang & Hsu, 2003). And the empirical results also support the positive relationship between market similarity and channel integration (Anderson & Coughlan, 1987; Osborne, 1996).

2.2.4. Global strategic consideration (eclectic approach)

The strategic perspective addresses how integration affects the competitive positioning of firms in different markets. It is argued that in the present business environment, firms are competing in global rather than national markets (Levitt, 1983). The overriding objective of firms following global strategies is to improve competitive positioning by coordinating operations across national markets (Kim & Hwang, 1992). Hill et al. (1990) argued that global strategy has a major impact upon the choice of entry mode. And accordingly, they propose an eclectic approach that integrates global strategic factors into foreign entry mode selection.

Aulakh & Kotabe (1997) adapted and extended the eclectic approach in their study and their empirical results suggest that global integration strategy has a positive impact on channel integration.

2.2.5. Organizational capability

The capabilities of firms influence their ability and willingness to invest resources required to make forward integration decision (Nelson, 1991). *Firm size* therefore is often mentioned as a key factor determining the emergence of internal mechanisms for exporting (Agarwal & Ramaswami, 1992; Erramilli & Rao, 1993). Only large firms have the resources required to bear the risks and invest in huge fixed costs of channel integrating in new markets (Aulakh & Kotabe, 1997). Most empirical studies under review supported a positive relationship between firm size and channel integration (Osborne, 1996; Rialp et al., 2002).

2.2.6. Product & Industry factors

Besides applying established theories and frameworks to explain channel integration, researchers also realize that channel integration is related to various product and industry characteristics including product category age, service requirement, product differentiation, product criticality, product customization and industrial sectors.

Product category age affects channel selections. Older products are more established, well-known, and standardized; therefore, there are more qualified independent distributors available (Anderson & Coughlan, 1987; Kim & Daniels, 1991). The negative relationship between age of the product and channel integration has been empirically supported by Kim & Daniels (1991),

Majumdar and Ramaswawy (1995) argued that customer benefits are important considerations in the channel integration decision. The Manufacturer has to ensure that the distribution channel is chosen in such a way that customers gain maximum benefits. The provision of customer benefits is accomplished because of certain functions within the distribution channel. As a result, depending on the conditions of exchange, it can be in the interest of manufacturers to retain control over distribution channels so as to enable customers to maximize these benefits. Their empirical results showed that product criticality, product customization and auxiliary services have the biggest impact on channel integration, followed by firm size, technological impact, dollar outlay, information search, geographic scope, and market concentration, respectively.

Capital intensity (MacDonald, 1985) and R&D expenditure (Williamson 1981) are key industry factors which have been shown theoretically and empirically to affect vertical integration positively (Kim & Daniels, 1991; Rialp et al., 2002).

2.2.7. Decision Maker Characteristics

International marketing research has shown that family heritage, or international orientation of decision makers, is an important variable in a firm's decision to export (Reid, 1981). Ramaseshan & Patton (1994) accordingly argue that when a firm's major decision maker has foreign-born parents/relatives, or has been a frequent overseas traveler, the firm is more likely to use direct distribution. Contrary to the normal expectation, their empirical results reveal a negative association of international heritage with integration. A possible explanation to this is that decision makers who are more familiar with a foreign country will have a better ability to understand the financial risks involved and the problems associated with managing direct channels in the foreign country, and will therefore choose indirect channels (Ramaseshan & Patton, 1994).

2.3. Summary of extant channel integration literature

Excellent progress has been made in our understanding of the channel integration decision in international markets since the first major studies published in this area in 1987 (Anderson, 1987). From the chronologically sequenced summary table presented above, one can see a systematically incremental expansion of the constructs underlying the issue in response to new theoretical and empirical development. Despite these recent improvements, channel integration research, and in particular, channel integration research focusing on international markets, still remains very fragmented and is concerned with seemingly unrelated considerations. And few solid conclusions can be drawn from the previous studies.

The overall lack of consistency in the findings of exporting channel integration is exacerbated when different cultural contexts and different industrial sectors are involved. This inconsistency can be partially attributed to the specification errors in the current conceptual frameworks. The following sections aim to expand the conceptual framework by integrating a new orientation: Interaction Approach.

3. Expansion of the channel integration framework

The comprehensive review shows that the extant researches primarily concentrate on the autonomy of the firm in developing its international channel structure design. The following expansion of the channel integration framework builds upon the „interaction approach" and suggests that the channel relations between exporting manufacturers and local distributors also have influence on channel integration decision.

The industrial network approach proposed by the International Marketing and Purchasing (IMP) Group describes the industrial system as a network of firms engaged in production, distribution and use of goods and service through which lasting business relationship are established, developed and maintained (Whitelock, 2002). The themes of interaction, relationships and networks encapsulate the major research thrusts of the IMP Group (Turnbull, Ford & Cunningham, 1996). More recently, Johanson and Vahlne (1990) have acknowledged the importance of relationships to other bodies (customers, suppliers, competitors) in the foreign market. As such they have integrated the industrial network approach into the original internationalization process model.

The importance of business relationships led the IMP Group to their „Interaction Approach" model. Rather than following the previous research tradition of independent studies of buying or marketing activities, the interaction approach focuses directly on the important influence of relationships and interactions between partners on the attitudes and behaviors in both purchasing and selling (Turnbull, Ford & Cunningham, 1996). The interaction approach has implications for a channel integration

study in that the channel integration decision can be investigated through the analysis of relationships between exporting manufacturers and local distributors.

Adopting the interaction approach, the following propositions take the relation between manufacturers and distributors as the unit of analysis rather than the exporting firms independently. The channel relationship begins when two firms see mutual benefit from the exploitation of a business opportunity (Rosson & Ford, 1982), and trust and mutual dependence are most critical components of channel relationship (Nevin, 1995). However, the possibility of tension and conflict exists as each independent party bargains in an effort to meet its own goals, therefore, the channel relations are both cooperative and conflicting (Rosson & Ford, 1982). The focus of the following discussion will be on how trust, mutual dependence and conflict between exporting manufacturers and local distributors affect exporting channel integration decisions.

3.1. Trust

Trust is included in most relationship models because trust is a fundamental relationship model building block (Wilson, 1995). Rotter (1967) sees trust as a generalized expectancy held by an individual that the word of another can be relied upon. In economic exchange, there is the expectation that parties will make a good faith effort to behave in accordance with a commitment, be honest in negotiations and not take advantage of the other even when the opportunity is available (Hosmer, 1995). According to Pruitt (1981), trust is a prerequisite for coordination and collaboration leading to relational exchanges. Trust is even more critical in emerging markets, where weak legal infrastructure can hardly punish opportunism and protect the interests of victims, and where many aspects of relations between manufacturers and distributors cannot be formalized or based on the legal criteria, trust therefore becomes the cornerstone of a relationship.

One of the premises of the advantage of an integrated channel over an independent channel lies in the existence of opportunism. Opportunism refers to a lack of candor or honesty in transactions to seek self-interests with guile (Williamson, 1985). The hierarchical structure provides an effective mechanism to suppress opportunism. However, when the exporting manufacturers have confidence in the local distributors' reliability and integrity, they perceive lower level of opportunism, thus internalizing distribution function becomes less attractive. In emerging markets, where organizational flexibility is of paramount importance because of the existence of high market uncertainty, the market governance channel structure becomes even more preferable. Firms could hardly recover the integration investments if they were committed to a wrong market. Therefore, it's reasonable to predict that trusting relationships between exporting manufacturers and local distributors reduce the need for channel integration. And this is especially the case in emerging markets.

3.1.1. Personal Relationship

Trust can be produced in different ways. Larson (1992) finds that personal relationships shape the context for new exchanges between firms by reducing risks and uncertainty about the motives and intensions of the other member. She also finds that the individual and firm reputations are important attributes for coordinating exchange between firms. Hence social factors such as personal relationships and reputations provide bases for trust. Especially, in relation-based cultures like China, trust is engendered by the social norm that insists that business relations are personal relations (Bradach & Eccles, 1989).

Proposition 1a: Personal relationship facilitates the trusting relationship between exporting manufacturer and local distributor, and hence reduces the need for channel integration.

3.1.2. Experience

Experience plays a role in trust by making it possible to compare the realities of the firm with preconceived expectations. Ganesan (1994) views experience as an antecedent of trust. It is difficulty to build trust where none (or very little) exists, despite subsequent positive experiences. Positive experience facilitates the trusting relationship, whereas negative experience, can be used to justify or confirm the low level of trust that one party has in another.

Proposition 1b: Satisfactory cooperation experience facilitates the trusting relationship between exporting manufacturer and local distributor, and hence reduces the need for channel integration. On the other hand, negative experience leads to the opposite outcome.

3.2. Mutual dependence

Successful relational exchanges require considerable mutual dependence among channel members. Skinner et al. (1992) claim that „dependence and bases of power represent the foundation for the relationship". Interdependence is the underlying root of solidarity and mutuality (Nevin, 1995). The successful use of cooperative strategies is limited to situations in which each party has some minimal degree of power vis-à-vis the other parties (Benson, 1975). The underlying logic is that a channel member dependent on the role of performance of the other is more likely to exert greater effort to maintain the relationship. Thus we can expect that when the exporting manufacturers depend on the role of the performance of local distributors, they are more willing to establish relational exchanges with local distributors instead of using integrated channel structure.

Aligned with the above reasoning, the interaction approach also posits that companies interact with each other and develop relationships in order to exploit and

develop their resources (Turnbull & Wilson, 1989). Therefore, the relative resources possessed by each party determine the mutual dependence of the companies (Turnbull, Ford & Cunningham, 1996). Turnbull et al. (1996) have identified three categories of resources influencing the mutual dependence of companies: financial resources, network position, and skills. In the context of this study, network position and marketing skills possessed by local distributors are considered to be the most relevant factors influencing manufactures' dependence on local distributors and in turn, influencing the channel integration decision.

3.2.1. Network position

Network position consists of the company's relationships and the rights and obligations that go with them (Turnbull et al., 1996). For a distributor, one aspect of its network position is its access to a major consumer market. Another would be its reputation in the network. Both access to major consumer markets and enjoying a good reputation will be expected to increase the relative bargaining power of distributors. Superior position in the network is the outcome of generations of determined endeavor. It cannot be achieved easily by the manufacturers if they decide to use an internal sales force. In order to have access to a superior network position, exporting manufacturers should be willing to cooperate with local distributors.

Proposition 2a: When exporting manufacturers depend on the network position possessed by local distributors to market their product successfully, they should be more willing to establish relational exchanges rather than integrated distribution channel.

3.2.2. Country-specific marketing skills

Marketing skills consist of the abilities to analyze the requirements of others and to assemble the means to influence these others and deliver them to a recipient – this includes relationship competence; skills in managing relationships themselves (Turnbull et al., 1996). Since country-specific marketing skills are distinctive, better and resist imitation (Prahalad & Hamel, 1990), they cannot be transferred between firms. Therefore, in order to utilize the country-specific marketing skills possessed by the distributors, the exporting manufacturers should be willing to establish relational exchanges with local distributors.

Proposition 2b: When exporting manufacturers depend on the country-specific marketing skills possessed by local distributors to market their product successfully, they should be more willing to establish relational exchanges rather than integrated distribution channel.

3.3. Conflict

Channel conflict exists when one partner perceives the other partner as impeding the attainment of goals or some other function of concern (Stern & El-Ansary, 1988). It has been suggested that conflict is virtually inevitable in any marketing channel. Most agree that this condition is due primarily to the functional interdependence between channel members (Stern & El-Ansary, 1988).

Although conflict can motivate channel members to adapt, grow, and seize new opportunities, it can degenerate into actions calculated to destroy, injure, or thwart another party in an interdependent relationship (Stern & El-Ansary, 1988). Most researchers indicate that channel performance is harmed by high level of channel conflict. Because of the negative effects of channel conflict on channel relations and channel performance, it is reasonable to predict that the exporting manufacturers will be more willing to internalize the distribution function in stead of dealing with channel relations when perceived channel conflict is high.

3.3.1. Perceived nonexclusive distribution

Weitz and Jap (1995) point out the nonchannel exchange contexts, like supplier-manufacturer, manufacturer-customer, or strategic alliance contexts, often involve exclusive relations, whereas channel exchange contexts often involve nonexclusive relations. Channel intermediaries often deal with multiple competitive suppliers in a product category to satisfy the assortment needs of their customers. Manufacturers may be concerned about sharing sensitive information with other channel firms, even if the information is useful in coordinating activities, fearing that the information will be revealed to competitors. Conflict will occur when the need to provide assortment impels effective coordination and hence, the channel performance.

Proposition 3a: When exporting manufacturers perceive that the distributors might perform distribution for their competitors as well, they would be more willing to integrate distribution function instead of dealing with relational exchanges.

3.3.2. Perception divergence

Differing perceptions of reality are major sources of conflict, because they indicate that there will be differing bases of action in response to the same situation. As a result, behaviors stemming from these perceptions are likely to produce frustration and conflict (Stern & El-Ansary, 1988). Manufacturer perceptions that might lead to poor manufacturer-distributor relations include:

- distributors are preoccupied with „chiseling" the best prices out of suppliers;
- distributors ignore or move too slowly in accepting promotional deals and other allowances;
- distributors refuse to cooperate for fear of being „locked in" to a supplier.

Proposition 3b: When perception divergence exists between exporting manufacturers and local distributors, there will be greater chances of channel conflict. Under this circumstance, manufacturers tend to prefer channel integration to relational exchanges.

4. Conclusions

The paper presents an integrated conceptual framework for channel integration decisions through a comprehensive review of the various determinants of channel structure identified in the extant literature. This review leads us to conclude that there are substantial opportunities to increase our level of knowledge regarding channel integration decisions by forming new perspectives in response to the evolving global dynamics. For example, the extant channel integration framework concentrates on the autonomy of the exporting firm in developing its international marketing activities, leaving out the importance of relationship with other industry network bodies in the internationalization process. To fill in this gap, the paper adopts an „interaction approach", taking the relation between manufacturers and distributors as the unit of analysis rather than the exporting firms independently. The analysis suggests that interaction variables exert significant influence on the channel integration decision, and the proposals regarding the impact of trust, mutual dependence and conflict on channel integration would improve our understanding about exporting channel integration, and help managers with the complex task of determining international distribution channel structure.

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