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# The influence on export performance of performance ambiguity among foreign sales agents

## ABSTRACT

**Purpose** – This study examines the extent to which exporter difficulties in evaluating foreign sales agent performance affect export performance, either directly or as mediated by opportunism.

**Methodology** – In developing the hypotheses, the study integrates transaction cost theory and principal-agent theory. The proposed relationships between the constructs (performance ambiguity, opportunism, and export performance) are examined for a multi-industry sample of Norwegian exporters in their dealings with foreign sales agents. A survey of 410 qualified key informants yielded 101 usable questionnaires—a response rate of 24.6%. Structural equation modelling is used for data analysis and hypothesis testing.

**Findings** – The analysis finds support for the hypothesis that sales agent performance ambiguity relates negatively to export performance. While performance ambiguity is positively related to sales agent opportunistic behavior, opportunism does not significantly influence export performance. It seems that the adaptation costs created by the evaluation problem are of greater importance in reducing export performance than the costs created by opportunistic behavior.

**Research limitations and implications** – In focusing on the core dimensions of sales agent performance in foreign markets, other factors influencing export performance are not included. The fact that small Norwegian firms dominate the sample, further limits application and generalization of the findings. Nevertheless, the study provides export managers and scholars with a more thorough understanding of basic potentially deteriorating dimensions in the relationship between exporter and foreign independent sales agent.

**Originality/value** – To the best of our knowledge, this study is the first to examine how performance ambiguity and opportunistic behavior among foreign sales agents impact on export performance. By concentrating on basic deteriorating dimensions, the study adds to the few that focus on inhibiting drivers of exporter – foreign-sales-agent relationships.

**Keywords:** Export, export performance, performance ambiguity, opportunism, sales agents

**Paper type:** Research paper

## INTRODUCTION

The increasing globalization of economies, and growing worldwide competition, motivate firms to grow beyond their home market. The most popular way to expand across borders is simply by exporting (Leonidou and Katsikeas, 2010). According to The World Bank<sup>1</sup>, the influence of exporting on world gross product has shown a steady growth from 12% in 1960 to 28% in 2016. Because of the importance of exports in creating economic value, an understanding of the drivers of firms' competitiveness in foreign markets must encompass the factors that affect firms' ability to compete in export markets (Morgan et al., 2012; Cavusgil and Zou, 1994).

Anderson and Jap (2005) demonstrate that the development of ongoing relationships is heavily influenced by inhibiting, or deteriorating factors embedded in the history of relationships. The authors refer to the many and varied alliance types that are formed, and the fact that 30-60 % of them fail, motivating the authors to elaborate on reasons why so many close relationships underperform, or eventually break down altogether. Based on several studies, and in particular a recent dyadic examination of established relationships, Anderson and Jap (2005) choose to elaborate on inhibiting drivers of relationship performance. They (2005, p. 76) argue that close relationships may deteriorate in terms of the "the dark side of relationships"; i.e. "forces of destruction" of close relationships and state: "Relationships that appear to do well are the most vulnerable to the forces of destruction that are quietly building beneath the surface of the relationship". As Anderson and Jap (2005) report in their study, opportunism is one main force of relationship destruction. They also indicate that the risk of opportunism may increase, as the exchange partners learn how to exploit information asymmetry between them.

Obadia and Vida (2011) discuss weaknesses in previous research that focuses explanatory factors leading to export performance, and the common results in previous research indicating that socialization is almost always associated with better performance. The authors put forward arguments by researchers who believe that poor relationships impact negatively on performance. Furthermore, Anderson and Vida (2011) call for more research of the negative influence of relationships on performance. In particular, Obadia and Vida (2011) maintain that it would be worth examining whether the negative effect of relationships on performance occurs through opportunism.

The concept of export modes usually encompasses foreign distributors and sales agents (Hollensen, 2014), and enabling as well as inhibiting factors affect a company's competitiveness in foreign markets. However, previous research in the export performance literature, international strategic alliance literature, or export performance literature adapting the relational paradigm, seem to focus on positive or enabling drivers of export performance, thus ignoring inhibiting factors that may affect the ability to compete in export markets. And in spite of the importance of foreign sales agents in creating and sustaining economic value, foreign sales agents as an export mode is rarely focused upon in previous research – or results pertaining to this export mode are difficult to extract. In fact, foreign sales agents may contribute more to export performance than foreign distributors. Bello and Lohtia (1995) found that exporters using foreign distributors experience greater environmental uncertainty (i.e.

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<sup>1</sup> <https://data.worldbank.org/indicator/NE.EXP.GNFS.ZS> (Read September 2018)

diversity) than the use of sales agents, and that the use of agents contributes more to export performance than the use of distributors.

The much-cited export literature reviews of Aaby and Slater (1989), Zou and Stan (1998), Katsikeas et al. (2000), Souza et al. (2008) and Chen et al. (2016), are comprehensive, but do not report the results of studies on antecedents of independent foreign sales agent performance or report on negative, or inhibiting, drivers of export performance. Moreover, as shown by Christoffersen (2013) in his review of antecedents of international strategic alliance performance, or the review by Athanasopoulou (2009) of concepts used and research models within relationship literature, previous studies do not seem to include inhibiting drivers of (export) performance – or explicitly examine how inhibiting factors may affect export performance within exporter – foreign-sales-agent relationships.

The current study thus addresses this gap in the literature by using agency theory to analyze antecedents of export performance in cross border relationships encompassing exporters and contracted foreign sales agents. The exporter/foreign-sales-agent relationship reflects a typical principal-agent exchange (Jensen and Meckling, 1976; Bello and Gilliland, 1997) in which the principal (the exporter) delegates some decision-making authority to the sales agent (the agent), while bearing the risk of failure.

Contracting independent foreign sales agents may expose the exporter to performance ambiguity, which is defined by Ouchi (1979, p. 846) as the “clarity with which [agent] performance can be assessed”. That is, the exporter encounters performance ambiguity, because it can be difficult to evaluate the performance of a distant sales agent. The foreign sales agent’s acquired knowledge of customers and markets creates an information asymmetry between the exporter and the foreign sales agent, favoring the latter. Moreover, cultural differences, for example, aggravate the information asymmetry problem confronting the exporter. In fact, Ouchi (1979) explicitly mentions foreign service industries as an example of a context that constitutes high performance ambiguity.

Information asymmetrically distributed between the exporter and the foreign sales agent may reduce relationship efficiency by introducing transaction costs in two ways. 1) Information asymmetry, favoring the sales agent, may encourage the agent to engage in opportunistic behavior by shirking (Williamson, 1985) and 2) the information asymmetry problem facing the exporter may cause adaptation costs due to misdirected efforts (Ghosh and John, 1999).

The aim of the present study is to examine to what extent performance ambiguity influences export performance directly through misdirected efforts, or indirectly through shirking by the foreign sales agent. As far as the authors of the present research know, this is one of the first studies to examine the influence of performance ambiguity on opportunism and export performance among foreign sales agents, thus responding to the call for more work on the influence of negative relationships on performance by Obadia and Vida (2011). In addition, this study is of the first to focus on foreign sales agents as an explicit export mode. The use of an explicit export mode is necessary, because the various export modes, most often including foreign sales agents, distributors (or importers), have quite different characteristics. Sales agents do not take title to the goods or keep stock; they are paid on commission and do not bear the operational risk (Hollensen, 2014).

This study contributes to theory within the control, governance, and relational exchange literatures. Performance ambiguity may influence the choice of controls, governance structures,

or dimensions that are vital to forming relationship quality. Moreover, the results should contribute to the opportunism debate, and provide managerial guidance in allocating resources to reducing information asymmetry in exporter/foreign-sales-agent relationships.

The article is organized as follows: The next section presents the theoretical framework underpinning the choice of export performance antecedents in this study. A conceptualization of export performance is included, after which the research model is presented and then the development of hypotheses and research methodology. After reporting and discussing the results, the article contains conclusions and suggestions for future research.

## **THEORETICAL FRAMEWORK**

To elaborate on factors inhibiting export performance, this study integrates core dimensions within transaction cost analysis (TCA) and agency theory. Although TCA and agency theory are concerned, respectively with governance modes, or control modes, these theoretical avenues are implemented in previous research analyzing, for example, precursors of exchange partner commitment (Anderson and Weitz, 1992), degree of expectations of relationship continuity (Heide and John, 1992), export intermediary performance (Peng and York, 2001), or market selection (He et al., 2016). Moreover, TCA and the related agency theory focus on curbing transaction costs by prescribing governance, or control modes, that may reduce costs – or negative dimensions – in an exchange relationship. As such, these theories offer a suitable theoretical framework for analyzing factors inhibiting export performance. As pointed out of Shoham (1998), conceptual definitions of export performance in previous export performance research vary widely. Our study follows the recommendation of Shoham (1998, p. 72), using a three-dimensional export performance representation, namely “sales”, “profitability” and “change” in sales and profitability.

Possible adaptation costs and those incurred by opportunism, created by the evaluation problem facing exporters, influence export performance. The evaluation problem and its consequences are included and discussed in transaction cost analysis and agent theory. The problems in evaluating a foreign sales agent’s performance may incur adaptation costs, as well as maladaptation costs. Williamson (1985), who argues that maladaptation implies considerable transaction costs because of haggling, or running costs due to misalignment, proposes adaptation and maladaptation as two ends of a continuum. Conversely, successful adaptation and alignment by collaborative efforts may minimize friction between two parties in an exchange.

According to Williamson (1985; 1991), an exchange partner will practice opportunism based upon the existence of 1) specific assets – or dependence asymmetry, 2) external uncertainty, or 3) problems in evaluating partner performance (performance ambiguity). External uncertainty, such as market fluctuation and random market regulation, increases an exchange partner’s ability to impose a comprehensive contract that defines all relevant contingencies, thus allowing negative information asymmetry to arise and possibly increasing performance ambiguity as well. In both cases, a party experiencing favorable information asymmetry may be tempted to act opportunistically, particularly if the same party also experiences the other party being dependent on services rendered.

To accommodate the discussion of performance ambiguity and opportunism, transaction cost analysis is useful and concerned with the proposition that firms can reduce exchange costs and create economic value by choosing the most efficient governance mode. For example, the mode that results in the lowest transaction costs, given a specific transaction/exchange context characterized by the nature of specific assets invested by the exchange partners, depends on complexity (external uncertainty), bounded rationality, and information distributed asymmetrically between the exchange partners (Williamson, 1985). Uncertainty within an exchange relationship, and in the relationship environment, both create complexity and unpredictability.

External uncertainty encompasses volatility and changes in the external environment of the firm that cannot be controlled (Klein et al., 1990). According to Williamson (1985), supported by bounded rationality, external uncertainty raises the issue of adaptation, as external uncertainty enhances information asymmetry and increases the potential for external partners to behave opportunistically (Klein et al., 1990). Internal uncertainty, or behavioral uncertainty, labeled by Heide (1994) as performance ambiguity, reflects the difficulties associated with monitoring the contractual performance of exchange partners (Rindfleisch and Heide, 1997).

Peng and York (2001, p. 329) argue that when expanding across borders, the ex post transaction costs in exporting "are non-trivial" and export channels are chosen in order to minimize the costs. A major driver of ex post transaction costs is presented by Williamson (1985) as internal uncertainty, behavioral uncertainty, and by other theorists as performance ambiguity (Heide, 1994; Katsikeas et al., 2009). For Williamson (1985) and Ouchi (1979), performance ambiguity is uncertainty of a strategic kind – and is attributable to opportunism, because the agent may encounter moral hazard, due to the information asymmetry between the exchange partners, thus favoring the agent (Williamson, 1985). As such, opportunism may result in the agent not fulfilling the requirements of a contract, entailing reduced efficiency in an exchange relationship, and reduced value to the partners involved. However, performance ambiguity due to high monitoring costs, a lack of communication effort, or lack of knowledge of the exchange partner's working conditions, may also result in difficulty adapting to an exchange partner's working processes – resulting in adaptation costs because of information asymmetry leading to misdirected actions. As proposed by Skarmeas et al. (2002), turbulent market conditions allow negative information asymmetry to develop. In addition to possible opportunism costs, or in combination with them, misdirected actions can reduce exchange efficiency and value creation (Ghosh and John, 1999).

Williamson (1988) argues that transaction cost analysis and agency theory are mainly complementary, and the importance of performance ambiguity as a possible antecedent of opportunism in exchange relationships is stressed by TCA theorists and agency theorists. Stump and Heide (1996) argue that difficulties in ascertaining the true level of performance are closely related to the information asymmetry between principal and agent. Bergen et al. (1992) suggest that the information asymmetry problem is the most important antecedent of agent opportunism.

## **RESEARCH MODEL AND HYPOTHESES**

This study confirms the crucial role of information asymmetry between principal (exporter) and agent (foreign sales agent) in performance ambiguity problems facing the

principal (exporter). As in the research by Mishra et al. (1998), this study contends that performance ambiguity reflects the information asymmetry problem, formulating the hypotheses concerning information asymmetry as a problem of performance ambiguity.

The current study assesses inhibiting drivers of export performance by considering the core constructs of performance ambiguity and opportunism as such drivers, as reflected in agency theory. The evaluation problem of foreign sales agent performance is anticipated to have a direct and negative effect on export performance by reducing value through maladaptation costs. Moreover, the evaluation problem related to foreign sales agent performance may attract opportunistic behavior by the foreign sales agent. Ultimately, opportunistic behavior by the foreign sales agent may result in decreased export performance, as perceived by the exporter. Against this background, the research model is outlined in Figure 1. Next, it is developed a rationale for the hypothesized relationships between the constructs, including relevant previous research.

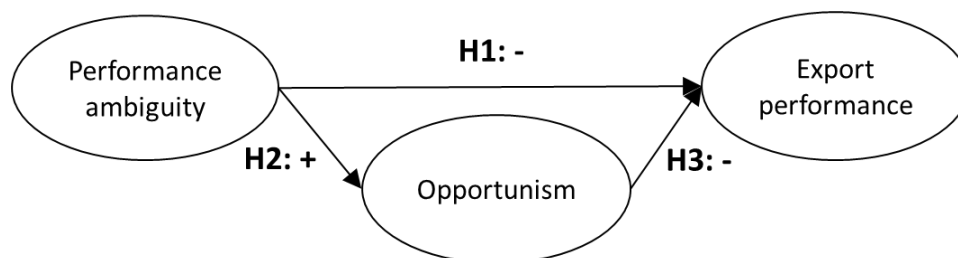


Figure 1: Research model and anticipated interrelations between constructs

### **Performance ambiguity and export performance**

Specialization and the division of labor are the main premises for the development of principal-agent theory. That is, “whenever an individual depends on the actions of another – an agency relationship arises” (Pratt and Zeckhauser, 1985, p. 2). Originating in the work of Jensen and Meckling (1976) and Fama (1980), agency theory focuses on issues related to the delegation of work, encompassing difficulties in assessing agent performance (performance ambiguity). Agency theorists explain these difficulties in terms of asymmetrically distributed information (Rindfleisch and Heide, 1997), and performance ambiguity is proposed to influence export performance directly as well as indirectly through opportunism, as shown in Figure 1.

Williamson also characterized performance ambiguity as “secondary” (1985, p. 57), confining the evaluation problem to information or communication deficits, creating adaptation costs that are not necessarily related to a partner’s opportunistic behavior. In contrast to Williamson (1975, 1985, 1991), this form of performance ambiguity is acknowledged, for example, by Ghosh and John (1999). They maintain that performance ambiguity may lead to transaction costs or reduce value creation in two ways, firstly through ex post opportunistic behavior (shirking costs, Eisenhardt, 1989; Bergen et al., 1992; Mishra et al., 1999) and secondly through maladaptation or misdirected efforts, as described by Ghosh and John (1999).

The transaction cost paradigm, or agency theory, seldom appear in analyses of export performance antecedents, as demonstrated by Chen et al. (2016). In contrast to earlier literature reviews, Chen et al. (2016) report the theoretical frameworks in the studies included in their survey of previous research 2006-2014 on antecedents of export performance. The resource-

based view dominates as a theoretical foundation (50 of the 109 reporting a theoretical framework), followed by contingency theory (13), institutional-based view (12), and organization learning theory (11). Only 4 of the 109 adopted transaction cost analysis/agency theory. Two of these concern internet marketing and internationalization, and as such, are irrelevant to this study. Of the remaining two studies, one may be representative of antecedents of performance ambiguity in crossing-border relationships.

Nes et al., (2007), as the only one of the four studies, propose that cultural distance negatively influences the cross-border relationship. The authors examine how cultural distance impacts on export performance by reducing trust and communication, and thereby, relationship commitment. Subsequently, reduced commitment decreases export performance. The results support the argument that cultural distance relates negatively to trust and confidence in the foreign middleman and to communication. Commitment to the foreign middleman is positively related to export performance. However, the concept of foreign middleman is not specified in Nes et al. (2007).

Cultural distance is one factor that may challenge communication with the foreign sales agent. Cultural differences increase the problems in assessing partner performance, establishing cultural difference as a close concept to performance ambiguity. As such, the results of Nes et al. (2007) support the argument that performance ambiguity affects export performance negatively. As pointed out by Nes et al. (2006), cultural differences increase difficulties in communicating and sharing information. Besides forcing the exporter to use subjective measures, cultural differences – as in the case of performance ambiguity – restrain the reliable input of sales agent performance, thereby increasing adaptation costs that affect export performance negatively.

Athanasopoulou (2009), who critically analyzes 64 articles in the period 1987-2007 concerning relationship quality (RQ), points to a possible link between performance ambiguity and export performance. One interesting result of the analysis is that the concept of opportunism is rarely included in RQ research. Nonetheless, one study does examine the influence of uncertainty, distance, and conflict on RQ dimensions such as adaptation, commitment, communication, cooperation, satisfaction, trust, and understanding (Leonidou et al. 2006). Their study is one of the few to investigate negative factors affecting the quality of relationships, using the empirical context of sellers in the USA who report on their relationship with foreign importers. The authors explain that all three inhibiting drivers relate significantly to all RQ dimensions. In particular, uncertainty (using items reflecting both external and internal uncertainty) is strongly and negatively related to exporters' perceived quality of adaptation. Leonidou et al. (2006, p. 582) also mention the various forms of uncertainty that seem to make exporters "less sure about making adjustments on structural, processual, or other issues". The results of this study support the argument that performance ambiguity (i.e. internal uncertainty) increases adaptation costs, reducing value creation/export performance.

In the present context of exporters and independent foreign sales agents, the evaluation problem is especially important (Ouchi, 1979). This problem entails increased adaptation costs (Nes et al., 2007; Leonidou et al., 2006), which in turn reduce efficiency and export performance. Ghosh and John (1999) posit that where there is an evaluation problem, the principal may fail to identify or implement the correct actions or may provide insufficient support in their relationship with the intermediary. This kind of adaptation problem can reduce



value creation in the exchange relationship with the intermediary, thus undermining export performance. On that basis, the following hypothesis is proposed.

*H1: Performance ambiguity relates negatively to export performance.*

### **Performance ambiguity and opportunism**

Information asymmetry between partners increases the evaluation problem, raising the probability of opportunistic behavior, which is an empirically established phenomenon in exchange relationships (Hawkins et al., 2008). Opportunism, or self-interested behavior involving deceit (Williamson 1985), includes partner behaviors that actively or passively exploit the relationship to their own advantage (Wathne and Heide, 2000), restricting organizational outcomes (John, 1984) or value creation (Morgan and Hunt, 1994). Opportunism is defined as “self-interest seeking with guile” (Williamson, 1985, p. 47) and is an important assumption of transaction cost theory (TCT).

Given the frequent discussion of its antecedents, and of its outcomes, it is not surprising that opportunism has attracted growing research interest (e.g. Terpend et al., 2008). However, this construct is “seldom the central focus of most empirical research and given how common it is in the business press, further research is warranted” (Hawkins et al., 2008, p. 905). Among studies exploring the concept of opportunism, Moran and Ghoshal (1996) argue that it is necessary to distinguish between the mere inclination to behave opportunistically and the behavior itself. Ouchi (1979) maintains that norms may inhibit partner opportunism, and some scholars have argued that the presumption of opportunism reflects a “standard behavior” that may not reflect reality (Ouchi, 1979; Verbeke and Greidanus, 2009). Given the risk of opportunism in partnerships, misrepresentations of intent and refusals to honor agreements cannot be assumed away (John, 1984). Opportunistic behavior may therefore be related to performance ambiguity, varying in degree according to the difficulty of assessing partner performance.

The concepts of performance ambiguity and opportunism focused on by transaction cost theory and agency theory are most often linked to the work of Williamson (1975, 1985, 1988, 1989, 1991) and to the closely related agency theory discussed, for example, by Jensen and Meckling (1976), Fama (1980), Eisenhardt (1989), and Bergen et al. (1992), and inspired by organization theorists such as Ouchi (1979, 1980).

Performance ambiguity corresponds to the concept of internal uncertainty (Mishra et al., 1998; Katsikeas et al., 2009). However, most discussions of performance ambiguity and opportunism refer to Williamson (1985), who maintains that performance ambiguity arises from difficulties in assessing adaptive, sequential decision making in exchanges with a partner. Moreover, Williamson (1985) asserts that the most critical form of performance ambiguity is also a strategic issue, as the evaluation problem may spur opportunistic behavior by partners in a relationship characterized by information asymmetry. This occurs in combination with the presumption of limited management capacity for rational action (bounded rationality).

Few studies have investigated the influence of various forms of uncertainty on foreign partner opportunism (e.g. Hawkins et al., 2008; Li, 2002; Skarmas et al. 2002). Of these studies, one focuses on foreign sales subsidiaries and two on foreign importers as partners in a

cross-cultural context. Although the results pertain to a different set of foreign intermediaries, compared to foreign sales agents, the results may indicate that performance ambiguity relates positively (also) to foreign sales agents.

Hawkins et al.'s (2008) review of previous research on antecedents and outcomes of opportunism in buyer-seller relations and suggest that uncertainty influences opportunism. The authors argue that uncertainty is dependent on behavior or environment. Furthermore, the qualitative study by Li (2002) investigates opportunistic behavior among 15 established sales subsidiaries on the part of British manufacturers in China. Interestingly, Li (2002) points to the contrast between the identification of opportunistic behavior by the salespersons based in China and the fact that the British employers expressed great trust in them. Lee (2002) proposes that the high degree of opportunistic behavior relates to the high environmental uncertainty and lack of strong legal frameworks in this emerging market.

Different cultural or business practices between exchange partners may develop information asymmetry, being drivers of performance ambiguity. Difficulties in understanding a foreign market culture or business in general make it harder to correctly assess sales agent performance (Klein et al., 1990; Lin-Yee and Ogunmokun, 2003), which may encourage foreign sales agents to engage in opportunistic behavior.

Lee (1998) examines (among other constructs) how decision-making uncertainty relates to the foreign importer opportunism facing Australian exporters. Lee (1998) measures decision-making uncertainty using three items, of which one touches on the concept of performance ambiguity (adequacy of available information). Lee (1998) finds that decision-making uncertainty and cultural distance relate positively to importer opportunism. The analysis by Skarmeas et al. (2002) yields results that point in the same direction. Skarmeas et al. (2002) examine to what extent exporter cultural sensitivity, and environmental volatility in the foreign market, influence importer opportunism. The results support the argument that cultural sensitivity, and environmental uncertainty, relate positively to foreign partner opportunism.

The above research examines the relationship between exporters and foreign sales subsidiaries and importers from the exporter perspective. On the other hand, Katsikeas et al. (2009) use the perspective of the importer in exporter-importer relationships, arguing that internal uncertainty in the importer-exporter relationship relates positively to the level of exporter opportunism. Relying on Williamson (1985), Katsikeas et al. (2009) argue that internal uncertainty or performance ambiguity make it difficult to evaluate an exporter's behavior. The authors maintain that difficulties in assessing exporter performance entail a reduced ability to collect and process relevant information, creating opportunities for the exporter to engage in opportunistic behavior and exploit the trading arrangements. However, Katsikeas et al. (2009) do not find support for the argument that internal uncertainty (i.e. performance ambiguity) affects exporter opportunism significantly.

Our study examines post-contractual relations, often described in agency theory as the hidden action problem, or moral hazard (Bergen et al., 1992). In line with transaction cost theorists, agency theory acknowledges the importance of information asymmetry between exchange partners, which tempts the more knowledgeable partner to engage in opportunistic behavior. In exporter/foreign-sales-agent relations, the latter has information that the exporter desires, but does not possess. The more exclusive information favoring the foreign sales agent may comprise, for example, knowledge of the foreign country culture, distribution networks,

customer behavior, or legal systems. The foreign sales agent possesses specific country and market information the foreign sales agent is reluctant to share with the exporter.

In the case of foreign sales agents realizing that the exporter does not have adequate information to verify the sales agent's behavior, the foreign sales agent is more likely to behave opportunistically, and to exploit the information asymmetry (Eisenhardt, 1989). In other words, the problem of self-interest may motivate the foreign sales agent to engage in opportunistic behavior (Bergen et al., 1992). Although relating to different foreign partner, compared to foreign sales agents, the results of Li (2002), Klein et al. (1990), Lin-Yee and Ogunmokun (2003), Skarmeas et al. (2002), and Katsikeas et al. (2009) support the arguments made by agency theorists. Hence:

*H2: Performance ambiguity relates positively to opportunism*

### **Opportunism and export performance**

Williamson's (1975) definition of opportunism refers to deceit and amorality. Wathne and Heide (2000) elaborate the concept of opportunism, forms of outcome, and solutions, by distinguishing between passive and active forms of opportunism. They note that although the party acting opportunistically may gain some short-term advantage, value creation for both will suffer in the long run.

The concept of opportunism is seldom included as an antecedent of export performance in previous research. One exception is Parkhe (1993), in which the analysis yields results supporting the argument that perceived opportunism by a strategic alliance partner affects negatively the principal firm's perception of alliance performance. Using the fulfilment of major strategic needs, and indirect performance measures such as overall performance assessment, as indicators of alliance performance, Parkhe (1993) shows that perceived opportunism relates negatively to perceived alliance performance. Although Parkhe (1993) does not specify which strategic alliances are included in the study, the results may support the argument that opportunistic behavior by foreign sales agents affects exporter performance negatively.

This study adopts the moral hazard, or hidden action concept concerning opportunism (Bergen et al., 1992), and concentrates on the phenomenon of shirking. Shirking, as measured in this study, may reduce value to the exporter (reduce export performance) in several ways. Breaking promises indicates that the foreign sales agents do not make the necessary efforts to achieve sales goals, affecting export performance negatively. Similarly, the foreign sales agent may not focus adequately on customer support. Neglecting decreased customer sales reduces export performance. Moreover, Wathne and Heide (2000) maintain that all forms of opportunism have the potential to restrict value creation. If shirking is present, export performance probably decreases. Thus:

*H3: Opportunism relates negatively to export performance.*

## **METHODOLOGY**

### **Research setting**

The sample of Norwegian exporters ranged in size from 1 - 2495 employees. About 90% of these firms had fewer than 200 employees, with a mean of 98.6. Their average turnover is NOK 156.6 million per year (about USD 20 million). With the exception of a few large corporations, the sample is representative of Norwegian industry, where firms are relatively small compared to other Western industrialized countries. The location of foreign sales agents is dominated by European countries (55.5%), followed by the Far East (25.7%), US (7%), South America (5%), and African countries (6.8%).

Foreign sales agents represent what Bello and Lohtia (1995) describe as a quasi-integration mode, which Solberg and Nes (2002) argue has certain characteristics distinguishing this export mode from, for example, foreign sales subsidiaries or foreign distributors. Thus, Solberg and Nes (2002) argue that exporters usually have greater trust and control capabilities in the exchange with a foreign sales agent, compared to foreign distributors. The degree of trust and ability to control may impact on how inclined the foreign partner is to engage in opportunistic behavior, and may influence the level of information asymmetry between the co-operating exchange partners.

In the case of foreign sales agents, and in contrast to foreign distributors, the exporter is normally more involved with sales and customer negotiations, as the exporter does not take title of the goods until the customer has them in stock. In this way, the exporter has control of activities “part of the way” (Solberg and Nes, 2002, p. 357). Using foreign distributors, the exporter has very little control over activities, and as shown by Solberg and Nes (2002), the exporters report low trust in the distributors. Moreover, foreign sales agents may feel less inclined to engage in opportunistic behavior, because commission is their incentive, motivating the agents to make an effort in aligning to what the exporter expects (Li, 2002).

### **Data collection procedure**

To collect the data, the first step was to establish a survey population of exporting firms, using Kompass Online and a Norwegian Trade Council directory of 2770 firms. The criteria for inclusion in the survey were 1) having a presence in more than two countries for more than three years, and 2) having a relationship with a foreign sales agent. With the help of six suitably trained bachelor students, all 2770 firms were contacted by telephone at least three times during the data collection stage to ascertain whether they met the survey criteria, to identify the most knowledgeable informant, and to motivate the informant to return the subsequently dispatched questionnaire. The informants finally selected were CEOs or VPs of International Affairs in Norwegian exporting firms, using purposive sampling as described by Frankfort-Nachmias and Nachmias (1992). Of the 2770 companies, 410 met the criteria and were willing to complete the questionnaire. To begin with, the questionnaire asked the key informant to choose one market in which their company had been operating for at least three years, and to focus on this particular market and on a particular sales agent operating in that market.

From the 410 positive informants of wholly-owned departments, distributors, agents and other foreign constellations, the survey procedure yielded 101 export – foreign-sales-agent relationships with usable questionnaires. Non-response bias was tested by comparing early and

late responses, following recommendations from Armstrong and Overton (1977). Non-response bias was examined both for the sample as a whole and separately for the sub-samples under each variable. Using T-values, the analysis showed no significant differences between early responses (60% of the sample) and late responses (40%), both for the sample as a whole and for separate variables.

### **Measurement development**

According to Williamson (1989, p. 149), “all measurement problems are traceable to a condition of information impactedness” that arises because of ex post information asymmetries, in this study favoring the foreign sales agent. When the exporter experiences information impactedness, or performance ambiguity, the ability to assess quality is severely limited (Mishra et al., 1998).

Ouchi’s framework (1979, 1980), and the empirical contributions of Ouchi and Maguire (1975), constitute a vital theoretical perspective often embraced by agency theorists (e.g. Eisenhardt 1989; Stump and Heide 1996), elaborating the concept of “information impactedness”. For example, Ouchi 1979 illustrates performance ambiguity by using two dimensions: knowledge of the transformation process (procedural knowledge) and ability to measure outputs (outcome measurability). Low performance ambiguity is characterized by high procedural knowledge and high measurability of outcome. In their study, performance ambiguity reflects procedural knowledge as well as outcome measurability, adapting three items suggested by Stump and Heide (1996).

Economic theory acknowledges opportunism as an endogenous variable (Wathne and Heide, 2000), defined as self-seeking effort with guile, a deliberately deceitful action (Williamson, 1985), thus indicating a lack of morality. However, as pointed out by Moran and Ghoshal (1996) and John (1984), individuals do not always behave opportunistically, even if the circumstances permit such behavior. The risk of opportunism is there, but refusals to honor agreements and misrepresentation of intentions cannot be taken for granted.

As proposed by Bergen et al. (1992), opportunism may arise before the exporter and the foreign sales agent enter a relationship (a precontractual problem/a hidden information problem), or, as in this study – after the relationship has been established (a postcontractual problem/a hidden action problem). Opportunism reflects what Wathne and Heide (2000) refer to as an evasion of obligations, or shirking in existing – ongoing – relationships. The present study asks the informants to choose markets in which the principal firm has been operating for at least three years, so that the firm (the informant) assesses a post-contractual phase of an ongoing relationship. The three items used in the questionnaire encapsulate shirking as misreporting, breaking of promises made by the foreign sales agent (Dahlstrøm and Nygaard, 1999), or not doing a good job with customers in the particular market (Bergen et al., 1992).

Katsikeas et al. (2000, p. 493) argue that the concept of export performance “is one of the most widely researched but least understood and most contentious areas of international marketing”. Multiple ways of conceptualizing export performance are adopted in previous research (Katsikeas et al., 2000), comprising different measures, perspectives and goals. Previous export performance research seems to focus on: 1) various forms of measuring export success, such as export effectiveness, export efficiency, and export adaptiveness; on 2) using

market or financial performance measures; on 3) implementing an export venture perspective or an export function perspective; or on 4) using objective or subjective measures (Oliviera et al., 2012; Morgan et al., 2012; Madsen, 1987).

In this study, the key informant in the exporting company focuses on a particular market in which the company has been established for at least three years, indicating that it is useful to adopt an export venture approach (Cavusgil and Zou, 1994; Morgan et al., 2004). Concerning the measurement of export success, the present study adopts the findings of Madsen (1987). He suggests three categories: profit, sales and change measures. The factor analysis of Shoham (1998) supports the categories proposed by Madsen (1987). The fourteen different performance measures load adequately on the three categories, explaining 82 % of the variance.

Shoham's (1998) analysis does not propose subjective measures of export performance, such as export managers' level of satisfaction with the export venture in a particular market. The author stresses the difference between objective and subjective measures, maintaining the importance of objective measures when assessing the company's performance relative to industry. However, objective measures are hard to obtain, because managers do not readily reveal objective measures of sales and profits in any market, due to confidentiality. Furthermore, managers' perceived satisfaction with the export venture in the particular market is likely to be reliable, because the satisfaction concept includes the key informant's view of strategic elements of success, such as market expansion, development in sales and profits (Cavusgil and Zou, 1994).

The present study adopts the subjective approach to measuring export performance (Cavusgil and Zou, 1994; Morgan et al., 2004; Nes et al., 2007), comprising the degree of export manager satisfaction with profits and turnover, compared to the company turnover in global markets, and to sales development.

A linguistic expert was engaged to formulate the questions in Norwegian, and the questionnaire was tested on key informants of the first 20 companies on the preliminary list. The pre-test, which included phone calls to check how well the questionnaire worked, indicated that there was no need for further adjustment. The measures used are presented in Table 2.

## **ANALYSIS**

A structural equation modeling approach may be used to simultaneously examine both direct and indirect effects of predictive variables on the outcome. The method tests hypotheses about the relationships among observed and latent variables, incorporating both variables. Structural equation modeling is widely used in behavioral science (Kline 1998, Byrne 2001), and adopted here in order to investigate the role of export performance in international relationships. This methodology usually entails a confirmatory approach and can be separated into measurement models and structural models. The recommended two-step approach to model construction and testing was adopted (Anderson and Gerbing 1988) and uses SPSS 24 and Mplus 8 statistical analytical software applications to evaluate the collected data.

An exploratory factor analysis (not reported here) was executed and the items fall into three dimensions in accordance with those hypothesized. One of the opportunism items had a low factor loading and was therefore excluded for further analysis. To avoid common methods bias, Harman's one-factor test was applied, as recommended by Podsakoff et al., (2003), with

all items entered into an exploratory factor analysis and forcing a load on one factor. Common method bias exists if any single factor accounts for most of the variance in the resulting factors. However, no single factor emerged in the analysis, and the first factor (eigenvalue = 3.1) only accounted for 38% of the total variance.

Table 2 shows the confirmatory factor loading using varimax rotation, eigenvalues and variance explained by the factors. Since export performance is regarded as a categorical variable in the structural equation model, an estimator of weighted least squares-mean and variance adjusted (WLSMV) was used. Confirmatory factor analysis was performed for the items of latent constructs, so as to confirm the validity of the measurement model. The bivariate correlations for all the measured variables were computed to check for multicollinearity. Furthermore, the table shows means, standard deviations, Cronbach's alpha and correlations of the latent variables of performance ambiguity (PA), export performance (EP) and opportunism (OP). The results show that all items underlying the constructs in the study, yield three factors with eigenvalues greater than 1 and they load on the appropriate constructs.

Table 1: Descriptive statistics

<b>*Items/Constructs</b>	<b>PA</b>	<b>EP</b>	<b>OP</b>
Precise standards by which to assess the intermediary's performance are unlikely to be available.	.678		
Evaluating the intermediary's performance is a highly subjective process	.765		
It is difficult to determine whether agreed quality standards and specifications are adhered to	.759		
We have reason to believe that the intermediary conceals information that is important to our company.			.909
The intermediary has not lived up to what s/he promised when we entered into the relationship.			.603
I have reason to believe that the agent does not follow up its customers well in this market			ns
We are very satisfied with the turnover generated by this intermediary, compared to our company's total turnover in global markets		.956	
We are unhappy with last year's sales growth in the market for which this agent is responsible for		.661	
We are very satisfied with the profits generated by this intermediary in this particular market		.743	
Eigenvalues	3.50	1.30	1.21
Reliability: Cronbach's alpha	.779	.708	.783
Mean	3.403	3.505	4.014
Standard Deviation	1.369	1.478	1.452
Correlation of latent variables			
Performance ambiguity (PA)		.350**	-.417**
Opportunism (OP)			-.299**
Export performance (EP)			

\*All loadings below .4 are suppressed and the factor loadings are significant at the <.001 level \*\*. Correlation is significant at the 0.01 level

The descriptive statistics in Table 2 indicate a positive correlation between performance ambiguity and opportunism, as well as a negative correlation between performance ambiguity and export performance, and between export performance and opportunism. All constructs exhibit acceptable reliability (Cronbach's alpha > .7) and standard deviation is between 1.37 –

1.48. The items in Table 2 are used in a confirmatory factor analysis as a basis for the measurement model. Both the measurement and structural equation models can be considered as theoretically acceptable. The structural equation model has goodness-of-fit statistics such as a comparative fit index (CFI) of .969, Tucker-Lewis Index (TLI) of .949, the weighted root mean square residual (WRMR) is .415 and root mean square error of approximation (RMSEA) is .076, all better than the appropriate thresholds (Browne and Cudeck 1993).

The structural equation model (SEM) indicates a strong negative relationship between performance ambiguity and export performance, as well as a strong positive relationship between performance ambiguity and opportunism. Opportunism also relates negatively to export performance, although the negative impact is not significant. Table 4 sets out the hypotheses and the results of the SEM analysis:

Table 2: Hypotheses and results

Hypothesis			$\beta$ value	p-value	Support
H1: Performance ambiguity	→	Export performance	-.481	.002	Yes
H2: Performance ambiguity	→	Opportunism	.478	.001	Yes
H3: Opportunism	→	Export performance	-.069	.677	No

## DISCUSSION AND IMPLICATIONS

The aim of the present study is to examine to what extent performance ambiguity influences export performance directly through misdirected efforts, or indirectly through shirking by the foreign sales agent. The results support H1 and H2. Performance ambiguity relates negatively to export performance, and positively to sales agent opportunism. On the other hand, H3 is not supported. Sales agent opportunism does not seem to influence export behavior negatively, compared to the difficulties in evaluating sales agent performance. The results confirm the importance of the evaluation problem in relation to independent sales agent performance in international relationships. The literature review identified only one previous study that focuses on performance ambiguity, testing the influence of customer performance ambiguity on strategies in outlet-customer and outlet-employee relationships (Mishra et al., 1998). As far as we know, the present study is the first to examine the importance of performance ambiguity in an international business-to-business context, in relation to opportunism and export performance.

This study offers new insights into understanding cross-border relationships encompassing exporter/foreign-sales-agent exchanges. The study contributes to the export performance literature by highlighting the roles of performance ambiguity and information asymmetry when creating value in exporter/foreign-sales-agent exchange relationships. The problem of ambiguity associated with the assessment of foreign sales agent performance seems to reduce export performance, and outweighs the possible inhibiting effect on export performance from foreign sales agent opportunism.

The results of the current study support the original assumption made by Williamson (1985), that performance ambiguity may lead to opportunistic behavior who is evaluated. However, previous research shows no consistent validation of this proposed inter-logic between performance ambiguity and opportunism, which suggests that further examination is needed. For example, Katsikeas et al. (2009) incorporate the concepts of performance ambiguity (which



they refer to as internal uncertainty) and opportunism in their investigation of how relational dimensions affect performance. Their analysis supports the argument that internal uncertainty (i.e., performance ambiguity) concerning manufacturer performance, relates negatively to distributor trust in the manufacturer, but fails to establish a relationship between performance ambiguity and opportunistic behavior on the part of the manufacturer. Katsikeas et al. (2009) do not investigate the effects on performance of misdirected efforts or opportunism caused by performance ambiguity.

The results of our study support the argument of Ghosh and John (1999) and Wathne and Heide (2000), that difficulty in evaluating a partner's performance - in this case, a foreign sales agent - may lead to misdirected actions or insufficient support of the exporter's dealings with the sales agent, entailing a reduction in value (i.e., in export performance). However, the hypothesis predicting the negative influence of sales agent opportunism on export performance is not supported. The lack of any significant relationship between opportunism and performance supports those who argue that the importance of opportunism may be overstated in the literature (Verbeke and Greidanus, 2009). Moreover, the results indicate the presence of mediating variables that may further explain the inhibiting effect of opportunism on export performance. For example, opportunistic behavior by a foreign sales agent (or by other intermediaries) reflects reduced commitment by the foreign sales agent, ultimately affecting export performance negatively. Skarmeas et al. (2002) and Nes et al. (2007) indicate the importance of mediating variables such as trust and commitment.

Skarmeas et al. (2002) examine to what extent exporter cultural sensitivity, and environmental volatility in the foreign market, influence importer opportunism. The results of their study support the argument that cultural sensitivity and environmental uncertainty relate positively to opportunism. Skarmeas et al. (2002) do not examine the direct effects of opportunism on performance, using importer commitment as an intermediate variable. The performance measure focuses on the importer's assessment of the relationship with the exporter. Furthermore, importer commitment relates positively to relationship performance for the importer. Skarmeas et al. (2002) point to the possibility that evaluation problems do affect opportunism positively, but that the negative effect of opportunism on export performance may be caused by reduced trust and commitment.

The link between performance ambiguity and export performance changes the picture, reducing the relative importance of sales agent opportunism. Interestingly, the influence of performance ambiguity is greater than that of foreign sales agent opportunism, which indicates that opportunism is less important than adaptation problems in relation to transaction costs. Moreover, the relatively larger influence of the adaptation problem caused by performance ambiguity indicates that the secondary behavioral uncertainty discussed in Williamson (1985, 1975) should have been acknowledged more in some of the control and governance literature.

Much previous research concentrates only on distributors/importers in export performance research or international strategic alliance research, or does not specify which export mode/entry mode is included in the investigation. The lack of specification of modes, and dominant focus on distributors/importers, neglects the fact that different modes have differing characteristics, possibly affecting the presence, antecedents and outcomes of behavioral attributes (e.g. Solberg and Nes, 2002).

Obadia and Vida (2011, p. 473) argue that until now, very few researchers in the export field have attempted to counter the conviction that “the closer the relationship, the more positive the outcome”. Obadia and Vida (2011) maintain that their results tell different story, in which close relationships may have positive effects, but can also hamper economic performance. Possible inhibiting relationship drivers, such as opportunism in long-term export-foreign sales department relations, are also indicated by, for example, Anderson and Jap (2005). The analysis in this study adds support to the argument that inhibiting drivers of relationship efficiency may arise even in export/foreign-sales-agent relationships that have existed for a long time. The mean relationship length in the present study is 9.77 years.

The observed importance of performance ambiguity in international business relationships and the observed interconnection (or lack thereof) between the constructs explored here also contributes to theory in the control, governance, and relational exchange literatures. For example, performance ambiguity may influence the choice of controls or governance structures, as well as concepts influencing relationship quality.

The results of the present analysis seem to support the view that performance ambiguity is a dominant precursor of export performance (even compared to opportunism), underscoring the importance of management efforts to acquire adequate knowledge of factors that may contribute to or reduce performance ambiguity. The emphasis on performance ambiguity and opportunism as inhibiting drivers of exporter/foreign-sales-agent relationship development contributes to management practice by highlighting the importance of performance ambiguity in decreasing export performance directly, mostly because of adaption problems. Managers in exporting firms should acknowledge the evaluation problem, directing resources to reducing information asymmetry. However, as in the case of the Norwegian exporting firms included in this study, small and medium-sized firms may have scarce resources that must be efficiently allocated. Hence, it is important to identify and adopt appropriate activities in the relationship with the foreign sales agent, such as socialization. On the other hand, socialization also requires efforts from the exporter. Wathne and Heide (2000) discuss strategies for managing opportunism, and point to the need for socialization efforts if socialization could curb partner opportunism. In terms of less costly efforts, Anderson and Jap (2005) suggest increased contact between the partners, monitoring, regular evaluations, and sound communication.

The poorest choice seems to be merely trusting the cooperating sales agent, without actually increasing the interaction between exchange partners. Anderson and Jap (2005) provide evidence that trust, as perceived by the exporting company is an unreliable and even false barrier to opportunistic behavior among sales subsidiary employees, if the exporting partner does not also increase learning and socialization.

## **LIMITATIONS AND FUTURE RESEARCH**

The present study contains a theoretical framework that proposes performance ambiguity and opportunism as inhibiting dimensions of international relationships, with possible deteriorating effects on export performance for sales agents, which somewhat limits the applicability of results at the firm level. For example, the study examines the overall effect on export performance, not specifying the product category involved in the exporting, or the principal firm’s resources. Goods-dominated product categories may entail less performance

ambiguity than more complex services. Firms that are better endowed with resources could prove to experience fewer evaluation problems with a foreign sales agent. Future research should include these dimensions, as well as others which affect possible antecedents of performance ambiguity or opportunism.

The present study focuses on a limited number of inhibiting drivers of export performance, because of trade-off decisions in the research design, aiming at core dimensions possibly curbing export performance. Although the restricted number of constructs included takes no account of other determinants and measures of export performance, restricting the number of variables to a few core dimensions supported by theory actually increases the value of the study.

The population of exporting Norwegian firms comprises small and medium-sized firms, and the results may not apply to larger exporting firms. In addition, the cross-sectional survey conducted in our study does not identify or consider the impact of relationship history. The influence of performance ambiguity and opportunism on export performance only reflects associative relationships and not causal ones. A longitudinal research design would clarify such causal interconnectedness between the core constructs.

Performance ambiguity and the underlying challenge of information asymmetry, merit more attention in future research. Further investigation of dimensions reducing or increasing performance ambiguity, would expand our knowledge of how relationship drivers affect export performance. For example, Johansson and Vahlne (1977) argue that experiential knowledge acquired by the exporting company may reduce uncertainty, entailing improved export performance.

Johansson and Vahlne (1977) distinguish between two types of experiential knowledge, namely general and market-specific knowledge. General knowledge relates to all foreign partner relationships, regardless of the country in question. For example, there is knowledge of marketing methods in various foreign markets, and knowledge of common characteristics of sales agents and types of customer, which may improve exporter ability to assess sales agent performance and to reduce information asymmetry.

On the other hand, market-specific knowledge may also reduce information asymmetry (perhaps even more so). This knowledge might relate to business networks, specific customers, or the particular culture. Acquiring such knowledge would enhance exporter ability to evaluate sales agent performance in that specific market, potentially reducing the evaluation problem. General and market-specific knowledge should be included in further studies as possible moderating factors in the posited inter-relationships between the dimensions included in this study. Increased exporter knowledge may influence the impact of performance ambiguity on opportunism and market performance, as well as the extent to which opportunistic sales agent behavior affects market performance.

The present study does not measure the interdependence between exporter and foreign sales agent, which may influence the potential for opportunism, and the extent to which opportunistic behavior affects export performance. The role of interdependence between exchange partners across borders is worth pursuing in future research. For example, Katsikeas et al. (2009) provide no consistent results in relation to how interdependence affects the influence of trust on export performance across different groups. As well as influencing the level of trust between partners, interdependence between exporters and foreign sales agents

may influence a sales agent's inclination to behave opportunistically. Increased perceived interdependence may curb the agent's tendency towards opportunistic behavior.

The present sample comprises mainly small companies in Norway from various exporting industries. As argued by Morgan et al. (2004), a multi-industry sample of this kind increases the generalizability of the results. Even so, further research might consider larger exporting companies using foreign sales agents as a direct mode of export. Larger exporting firms may have more knowledge and experience of exporting through foreign sales agents and of market conditions abroad, which may influence their perceptions of performance ambiguity and of opportunistic behavior among sales agents.

In framing contingencies and control, Ouchi (1979) clarifies the nature of performance ambiguity by referring to two dimensions that may also underlie exporter difficulties in evaluating sales agent performance; knowledge of the transformation process (procedural knowledge) and ability to measure outputs (outcome measurability). A lack of procedural knowledge and difficulties in outcome measurability may contribute to difficulties in assessing sales agent performance and to a misdirection of efforts, or to an insufficient provision of support in the relationship with foreign sales agents. Future research should take a closer look at which of these dimensions (lack of procedural knowledge or outcome measurability) contributes most to the evaluation problem. A clarification of their relative importance and internal logic would contribute to management practice by helping exporters to adjust to the context in which sales agents (or other independent intermediaries) operate. Future research should also consider the sales agent's operating environment, including market volatility, psychic distance, service properties, and task characteristics, thus contributing further to management practice and to the development of control or governance theory and relational exchange theory.

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