



## How control system information characteristics affect exporter–intermediary relationship quality



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### ABSTRACT

This study provides insights into the role of control systems in building sound international business relationships. Specifically, it examines the effect of design characteristics of exporters' control systems, as a main source of information, on the quality of their relationships with their foreign intermediaries. The results reveal that in these international business relationships the scope and timeliness of information directly affect relationship quality, and that the intensity with which this information is used—in diagnostic or interactive ways—to some extent reinforces these positive associations. The findings suggest that exporting firms should devote more effort to developing formal control systems that generate timely information, and also indicate avenues for further research.

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### 1. Introduction

Many small and medium-sized enterprises (SMEs) export through independent intermediaries (agents, importers, dealers, etc.) (Kuhlmeier & Knight, 2010; Leonidou, Katsikeas, & Samiee, 2002; Madsen, Moen, & Hammervold, 2012). These relationships make it possible for the producer to reach otherwise inaccessible markets (Gençtürk & Aulakh, 2007), cut costs (Sachdev, Bello, & Pilling, 1994), improve quality and performance (Gençtürk & Aulakh, 2007), gain contacts with key purchasers or vital knowledge, and avail themselves of more sophisticated marketing services adapted to the specific market (Pahud de Mortanges & Vossen, 1999). But the development of harmonious relationships with foreign partners is hindered by many problems (Leonidou, Leonidou, Coudounaris, & Hultman, 2013) that make performance goals difficult to achieve (Ural, 2009). Relatively little is known about how SMEs could better manage these relationships in order to achieve international success (Kuhlmeier & Knight, 2010).

Because these relationships make up a complex setting (Cavusgil, Deligonul, & Zhang, 2004; Solberg, 2006), managers need to improve relationship quality as a key determinant of long-term sales, profits, and firm growth (Bello, Chelariu, & Zhang, 2003;

Ural, 2009). The concept of relationship quality has become important to the international business literature (Lages, Lages, & Lages, 2005) as a second-order construct made up of several distinct, although related, elements: adaptation, commitment, cooperation, satisfaction, trust, and understanding. Good relationship quality indicates that the relationship presents future potential, and explains an essential part of the exporter's performance in international markets (Kuhlmeier & Knight, 2010; Leonidou et al., 2013; Solberg, 2006). The fact that relationship quality is critical to achieving high performance in international business highlights the need to invest time, effort, and resources in improving relationships (Leonidou et al., 2013). Some studies have investigated what factors might improve relationship quality (Kumar, Scheer, & Steenkamp, 1995; Nguyen & Nguyen, 2010).

Solberg (2006) analyzed how different modes of control systems affect the quality of relationships between exporters and their foreign sales and marketing intermediaries, but found only partial evidence, indicating a need for further research. Control systems—that is, specific, exporter-initiated directives, policies, and procedures aimed at influencing foreign intermediaries to perform marketing actions in ways that support the exporter's objectives and strategies (Bello & Gilliland, 1997)—are especially relevant to managing international exchanges (Aulakh & Gençtürk, 2000). Control systems are one of the main information sources for any organization (Zimmerman, 2003), and since information is one determinant of relationship success (Toften &

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Rustad, 2005; Ural, 2009), we propose that the characteristics of the information these systems produce can influence the partners' perceptions, their evaluation of the relationship, and their satisfaction. Their information characteristics have been classified using four broad dimensions (Bouwens & Abernethy, 2000; Chenhall & Morris, 1986): scope (narrow to broad), timeliness (slow/standard to fast/customized to requests), aggregation (summarized to very detailed), and integration (comprising information from the focal unit only to including information from one or more other units). However, the literature still lacks evidence on how these characteristics affect the quality of exporters' relationships with their intermediaries. Consequently, our first aim is to examine the effect of control design characteristics on the quality of these relationships, as a means to increase our knowledge about the effectiveness and adequacy of this information in developing and improving long-term relationships between exporters and foreign intermediaries.

As the literature suggests, control effectiveness depends not only on the characteristics of information but also on how it is used (Bisbe & Otley, 2004; Velez, Sanchez, & Alvarez-Dardet, 2008). According to a well-established taxonomy, control systems serve two main uses, diagnostic and interactive (Simons, 1995; Tessier & Otley, 2012). Traditional *diagnostic use* involves monitoring performance and correcting deviations from target performance; *interactive use* represents a more proactive style of management that involves identifying key strategic areas and constructively discussing data with intermediaries (Flórez et al., 2012). Several empirical studies in export settings (e.g., Souchon, Sy-Changco, & Dewsnap, 2012; Theodosiou & Katsikea, 2013) indicate that it is reasonable to assume that information appropriateness is positively related to use. And because the characteristics of control information can hinder or reinforce the intensity of its use (Bisbe & Otley, 2004), our second aim is to analyze how exporters' control use might mediate the association between control design and the quality of their relationships with foreign intermediaries. To address these two aims, we develop a quantitative analysis based on an online survey administered to a sample of 194 Spanish SME export managers.

Considering the importance of sound international business relationships to improving long-term performance, and building on previous research (e.g., Solberg, 2006) that recognizes the importance of control systems to healthy relationships with intermediaries, the present study offers a novel approach, integrating selected parts of the literature on firms' internationalization processes with management control literature. This study contributes to the international business literature by translating Chenhall and Morris's (1986) framework to an international relationship and widening it from behavioral and organizational outcomes (Hoque, 2004) toward relational outcomes, offering deeper evidence about how design characteristics of information influence exporters' perceived relationships with intermediaries. Additionally, we apply the diagnostic vs. interactive distinction to analyze whether intensity of exporter use can counteract or reinforce the impact of information characteristics. This approach allows us to broaden the traditional conception of how formal control systems enable interaction between firms across countries. Overall, going beyond previous research centered on the effect of each type of control system, we provide additional understanding of how control systems contribute to relationship quality as a second order variable, but also analyze their effects on each element of exporter–intermediary relationship quality.

In what follows, the second section of this study defines exporter–foreign intermediary relationship quality, control information design, and control information use in exporter–intermediary relationships. The third section develops our research

hypotheses, and the fourth section develops the empirical study. Lastly, we discuss our results, emphasizing the main conclusions and limitations.

## 2. Theoretical model

### 2.1. The quality of the exporter–foreign intermediary relationship

Smaller firms generally have far fewer of the tangible assets, as well as financial and human resources, that favor the internationalization of large enterprises (Kuhlmeier & Knight, 2010), so SMEs depend on intermediaries to undertake various marketing, physical distribution, and customer service activities abroad (Gençtürk & Aulakh, 2007; Madsen et al., 2012). Although this is the commonest mode of entry into foreign markets, in many cases the inappropriate management of relationships with intermediaries leads to poor export performance (Cavusgil et al., 2004).

Most studies identify exporter–intermediary relationship quality as a key determinant of export sales, profits, and growth (Ural, 2009). Smith (1998) defines it as “an overall assessment of the strength of a relationship and the extent to which it meets the needs or expectations of the parties based on a history of successful or unsuccessful events.” Several conceptualizations of relationship quality have been proposed, but they coincide in highlighting that it is multidimensional, including “all those behavioral parameters that help to maintain a smooth, stable and productive working relationship” (Leonidou, Barnes, & Talias, 2006, p. 578). Studies have linked the climate governing the exporter–importer working relationship with operating performance (e.g., Lages & Lages, 2004) and, what is even more important, with long-term export performance (Ural, 2009). In accord with Geyskens and colleagues (1999), we understand that relationship quality can be improved through the confirmation of expectations (or the disconfirmation of negative expectations).

### 2.2. Control systems within exporter–intermediary relationships

One matter of critical concern to international marketers is the exporter's ability to influence the decisions and actions of the foreign partner. Delegating key functions leaves exporters vulnerable to low performance (Bello & Gilliland, 1997), accentuating the need for control mechanisms. Although control considerations are important for any organization, they are especially so in managing interorganizational exchanges across diverse national environments (Aulakh & Gençtürk, 2000). In an international context, a challenge for any control system is to supply managers with information that, while satisfying the individual needs of decision makers, enhances the quality of export decisions (Leonidou & Theodosiou, 2004; Theodosiou & Katsikea, 2013). To develop such systems, one must determine what information export managers need both to deal with marketing issues and to control intermediary actions.

#### 2.2.1. Control information design characteristics

Chenhall and Morris (1986) and Bouwens and Abernethy (2000) classify information characteristics into four wide dimensions—scope, integration, aggregation, and timeliness. Although there is potentially some overlap (Bouwens & Abernethy, 2000), distinguishing between them enables us to sort out their influences.

- *Scope* has subdimensions of focus, quantification, and time horizon. *Focus* refers to whether the information is collected from within the firm or outside it (e.g., economic, technological, and market factors). *Quantification* pertains to whether the information is financial or nonfinancial and quantitative or qualitative. *Time horizon* refers to the extent to which the information relates

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