

Managing overseas trade commissioners – Agent- and TCA-based perspectives

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Abstract:

Purpose: To explore the relative usefulness of agency theory and transaction cost analysis to the study of the relationship between the headquarters of export promotion organizations (EPO) and its representatives abroad.

Design/methodology/approach: Transaction cost analysis (TCA) and agent theory suggest that EPOs can use own trade commissioner offices and independent local representatives as effective modes of overseas representation. Based on TCA and agent theory, the paper identifies under which conditions those representation modes should be used and offers propositions to guide future research.

Findings: From the TCA-based perspective, propositions related to the mode of overseas representation and the impact of asset specificity, problems in evaluating the outcome of EPOs and environmental uncertainty are developed. From an agency theory perspective, propositions related to the mode of overseas representation and the impact of uncertainty, difficulties in measuring inputs and the cost of monitoring outcomes are developed.

Research limitations/implications: The primary limitation is the study's conceptual nature. Despite this, it contributes theoretically as it extends current knowledge of how EPOs manage and control their overseas representation. The management of EPOs' overseas representation is advised to take both own TC offices and independent local reps into their consideration set when deciding to enter a new market and consider the propositions. The two perspectives are complementary and provide the necessary foundation for future empirical research on the choice and management of EPOs' overseas representation.

Originality/value: Previous research has exclusively focused on the impact of government export promotion programmes from the export firm's perspective. The design, management and control of EPOs and their TC networks have been overlooked. This research fills that gap.

Keywords: Export promotion organization, trade commissioner, local representatives, management.

Introduction

Encouraging exports is a primary concern of most governments (Czinkota & Samli, 2007). Many export promotion programmes are designed for the development and nurturing of exporters. These approaches to the encouragement of exports typically manifest themselves in a wide range of services, taking different forms in different countries and business sectors (Morgan, 1997). Export support programmes can generally be divided into direct and indirect programmes (Diamantopoulos *et al.*, 1993; Lesch *et al.*, 1990). Indirect programmes include support related to R&D, innovation

support, sector development and tax and investment incentives. Direct support programmes include support designed to enhance exporters' competitiveness. Such support includes government departments and offices supplying export information and advice, programmes that provide export assistance and programmes that cover exporters' financial risks.

Direct support programmes such as export promotion organizations (EPOs) and trade commissioners are primary points of contact and a direct support for many exporting firms. We find pure government-

supported EPOs, privately funded and even quasi-governmental programmes. EPOs manage and control overseas networks of diplomatic and trade offices (i.e. labelled as trade commissioners – TC in this article) that provide support for exporters. The core of that support is establishing and maintaining diverse international connections at a number of levels in order to identify emerging export opportunities and supporting exporters' marketing and promotion efforts.

Given the important role of export promotion organizations and the networks of TC offices, it is necessary to search for ways to frame problems and answer questions about how to manage the complex network of TC offices most effectively. For researchers, this means developing new theoretical perspectives with which to examine issues such as the management of a set of overseas TCs with diverse external environments and a range of internal skills and competencies.

Methods to manage and control TC office networks have to a very little extent been researched or evaluated in any systematic manner in the marketing literature or in the the export research literature. Because of this little is known about the relationships between TCs and their EPO headquarters, and overseas TC management and control mechanisms. The purpose of this article is therefore to explore the usefulness of transaction cost analysis and agency theory to the study of the relationship between the EPO headquarters and its TC offices, the management of the TC offices and the choice of TC offices versus independent local representatives. The two different theoretical perspectives will be explored in an attempt to shed light on the mechanisms used to manage overseas TCs within an EPO.

Theoretical, empirical and practical reasons justify additional work being carried out in this area. As pointed out by Gençtürk & Kotabe (2001), government export promotion programmes represent an important topic necessitating further theory develop-

ment and empirical research. The current literature on export assistance programmes focuses on the users' perspective (i.e. the exporters). This is natural based on the expectation that the use of promotion assistance programmes affects export performance. However, no research has been identified that deals with the management and control of EPOs. Theoretical models of the management of EPOs are a prerequisite for good empirical research that will provide practising EPO managers and public policy makers with deeper insights. This will enable them to make managerial and policy decisions that are more informed. In times of tightening budget constraints and competing public priorities, the use of public funds and efforts to attract firms into exporting can be questioned. The expenditure of public monies on EPOs may be inappropriate. Even if such funds are spent, a secondary question then concerns the issue of how the allocated budget can be used most effectively. Empirical research may enable existing and future EPOs to improve their performance without incurring a major additional financial burden. Testing and validating the two perspectives in future empirical studies of EPOs may lead to further theory development.

This article makes use of constructs from transaction cost analysis (TCA) and agent theory (AT). Propositions identifying the condition under which a TC office or local reps are appropriate organizational forms are derived. Taken together, the propositions provide elements of a framework for managing overseas trade commissioners.

Export marketing assistance literature review

Diamantopoulos *et al.* (1993) reviewed 24 empirical studies on export promotion programmes in the period from 1973 to 1991. The perspective in all the reviewed studies is from the exporting firms or the users of

government export assistance programmes. The role and impact of government export promotion at the exporting firm level are the main purpose of the studies in that period. Table 1 summarizes the key characteristics of fifteen empirical studies on export promotion programmes over the last 15 years from 1992 to 2007. From Table 1, the important point appears to be the assessment of the impact that export assistance has on the export behaviour and performance of the exporting firms. The perspective in the export marketing assistance literature from 1973 to 2007 is exclusively that of the exporting firms and the effec-

tiveness of the export assistance programmes in relation to the exporting firms' performance. A major and currently under-explored issue is therefore the efficiency of different export promotion organizations and associated overseas representations. In spite of the fact that the export assistance literature shows a lack of unequivocal findings with regard to performance impact on the exporter level, most countries have some kind of export assistance programmes and organizations. Research on the efficiency of such programmes and organizations is therefore needed.

Table 1 Empirical studies on government export promotion 1992–2007

Authors:	Perspective:	Context:	Conclusions:
Leonidou <i>et al.</i> (2007)	Exporting firms	Literature review of factors stimulating exporters	Public policy-making implications with regard to export promotion programmes are extracted.
Spence & Crick (2004)	Exporting firms	52 UK exporters participating in overseas trade missions subsidized by a UK EPO	New exporters rate trade missions as more beneficial than established exporters.
Spence (2003)	Exporting firms	113 UK exporters participating in overseas trade missions subsidized by a UK EPO	Relationship-building processes at trade missions contribute to increased export sales.
Ahmed <i>et al.</i> (2002)	Manufacturing firms	53 Malaysian firms	A low degree of awareness of the export promotion programmes are found among the firms.
Gençtürk & Kotabe (2001)	Exporting firms	162 US exporters	The competitive benefits of exporting are evaluated more favourably as the usage of export promotion programmes increases.
Crick (2001)	Exporting firms	156 UK executives with exporting responsibilities	The usefulness of information sources such as foreign and Commonwealth offices are ranked as less useful.
Spence & Crick (2001)	Exporting firms	113 UK exporters participating in overseas trade missions subsidized by a UK EPO	New exporters to the markets visited used the trade mission to establish a position whereas established exporters are strengthening their position.
Crick & Chaudhry (2000)	Exporting firms	101 UK agricultural exporters	A perceived lack of government assistance is found across sub-categories of exporters.
Demick & O'Reilly (2000)	Exporting firms	9 Irish exporters	Participation in an export development programme has provided targeted support and direction to accelerate exports.
Moini (1998)	Exporting firms	162 US exporters	Export assistance programmes should be designed and carried out with a clear target audience in mind.

Authors:	Perspective:	Context:	Conclusions:
Weaver <i>et al.</i> (1998)	Exporting firms	697 Norwegian exporters	Develop a profitability model assisting government agencies in allocating resources for assistance and support.
Crick (1997)	Exporting firms	1242 UK SME exporters	Most government export assistance programmes are perceived as more difficult to obtain by early exporters compared with established exporters.
Walter (1996)	Exporting firms	32 Norwegian exporters	Services provided by the investigated export assistance programme are used very extensively.
Crick & Czinkota (1995)	Exporting firms	168 US exporters and 422 UK exporters	Exporters tend to use the assistance that is offered at any time by the government.

New perspectives on EPOs

This section discusses the role of EPOs from an agency theory perspective and a transaction cost perspective. A set of research propositions are developed and directions for the development of research are given.

EPO headquarters – overseas TCs framed as a TCA problem

Transaction cost analysis (TCA) was originally advanced to understand the issues related to the boundaries of the organization (i.e. the make or buy decisions of a firm). In the context of EPOs, TCA should provide a better understanding of the choice between TC offices versus independent local representatives. TCA emphasizes “actual and opportunity costs of transacting under various governance structures” (Anderson, 2008:72). Transactions take place under bounded rationality, the actors operate under some degree of uncertainty (i.e. they are imperfectly informed) and they have a tendency to act opportunistically (Wathne & Heide, 2000). A priori, TCA treats market contracting as more efficient than vertical integration. In other words, independent representatives representing an EPO headquarters, are assumed to be more efficient according to TCA.

However, the presence of transaction-specific assets may be seen as a cause of

“market failure” (Anderson, 2008). For example, an EPO establishing a TC office in a specific market may need to train TCs to gain the knowledge specifically required for servicing exporters to that market. To the extent that this knowledge would not be relevant to other markets, the resultant knowledge would correspond to a transaction-specific asset with inadequate value beyond that particular market. Specific functions involve routines, expertise and a language whose learning is complicated to share and costly to relocate to other organizations (Teece, 1986). Drawn from this one may say that such kind of acquisitions should be seen as a specific or idiosyncratic asset that can not easily be reallocated to another use. Transaction-specific assets, i.e. knowledge, of a human nature in the form of specific and special-purpose knowledge and working relationships (i.e. in-market networks and market intelligence expertise) acquired by a presence in the actual markets and created specifically seem to be a strong argument for TC offices.

Proposition 1: *The higher the transaction specificity associated with an EPO’s presence in a particular export market, the greater the likelihood of adopting a TC office as the mode of operation.*

Evaluating the outcome or performance of EPOs may be difficult. This could also be a

cause of “market failure” that leads to TC offices (i.e. integrating) instead of local reps (i.e. market). When performance cannot be assessed easily, using local reps could be inefficient because it is not known what to reward or how to reward. Difficulties in assessing performance also confuse attempts to put together incentive-compatible contracts with local reps. Monitoring the behaviour (inputs) of local reps using subjective assessments as the fundamental of rewards could be a way to decrease the problem.

Proposition 2: *The more difficult it is to assess the performance of an EPO’s activities, the greater the likelihood of adopting a TC office as the mode of operation.*

Environmental uncertainty reduces organizations’ ability to control the flow of resources and imposes adaptation problems for their decision makers (Buvik & Grønhaug, 2000). Cultural differences (i.e. differences in language, education, business practices, culture, political systems, values, customs and psychological distances across countries) can generate internal uncertainty and may affect transactions within an organization (Anderson, 2008; Belich & Dubinsky, 1998; Bilkey, 1978; Gatingnon & Anderson, 1988; Johanson & Vahlne, 1977; Klein & Roth, 1990). The uncertainty related to sociocultural distance makes it difficult for an EPO headquarter to transfer governance structures and values to a different operating environment. Sociocultural distance increases the need for information and therefore the information cost. Measuring performance may therefore be difficult in a culturally diverse environment. Instead of trying to understand the complexities of different cultures in order to set a standard for evaluation, responsibilities can be transferred to local reps instead.

Proposition 3: *The greater the cultural distance to the export market,*

the greater the likelihood of adopting local reps as the mode of operation.’

A complex and unpredictable environment makes it difficult for EPOs to manage under either the TC office or local reps modes. However, according to Williamson (1979), local reps are preferable even in turbulent circumstances. EPOs are better off retaining flexibility by using local reps, but a combination of asset specificity and environmental uncertainty may reduce this flexibility. Hold-up problems could increase because of the local reps’ disposition to use adjustment to uncertainty for their own benefit with relative impunity. If so, the EPO is better off dealing with its TC offices.

Proposition 4: *The higher the environmental uncertainty, the greater the likelihood of adopting local reps as the mode of operation.*

Proposition 5: *The higher the asset specificity and the higher the environmental uncertainty, the greater the likelihood of adopting a TC office as the mode of operation.*

Transaction-cost-based propositions about the relationship between the EPO headquarters and its TC offices, the management of the TC offices and the choice of TC offices versus independent representatives are developed in this section. The propositions include asset specificity, problems in evaluating the outcome of EPOs and the impact of environmental uncertainty.

EPO headquarters – overseas TCs framed as an agency problem

The agency perspective where “the problem of inducing an agent to behave as if he were maximizing the principal’s welfare is quite general. It exists in all organizations and in all cooperative efforts – at every level of management in firms” (Jensen & Meckling, 1976:309). In the context of EPOs, the EPO’s headquarters, as the principal, delegates responsibilities and

decision-making authority to the overseas TCs (i.e. the agents). According to AT, an agency problem exists if TC management makes decisions that are incompatible with those considered necessary by the EPO headquarters, due to goal incongruence between the EPO headquarters and the subsidiary TC and self-interested behaviour on the part of the subsidiary TC management. Jensen & Meckling (1976) recommended two approaches to resolve this agency problem: the principal can use monitoring to limit the agent's capability to take on self-interested behaviour, or incentives, which serve to make parallel the goals of the principal and agent. It is the former that are of primary interest with regard to the EPO's decisions on overseas representations.

Monitoring can be defined as activities or mechanisms used by EPO headquarters to attain information about the TC activities and behaviours. According to the AT, monitoring leads to increased information about agent behaviour and, thus, leads to increased efficiency by reducing the risk that the agent will engage in behaviour that is not in the interest of the principal (Tan & Mahoney, 2006). Both Eisenhardt (1985) & Ouchi (1979) have pointed out that the most direct form of monitoring is personal supervision of management. In the EPO case, headquarters may have a problem in supervising the behaviour of the overseas TC directly due to the geographical distances. Activities other than direct supervision are therefore also likely to be used to monitor the TC management. One means of monitoring the TCs may be the use of expatriates in management positions at the overseas TC offices. These "outsiders", who act in the best interests of the principal, monitor the actions of the agent so as to limit self-interested behaviour (Beatty & Zajac, 1994; Zajac & Westphal, 1994). The presence of EPO headquarters personnel can be viewed as a form of headquarters supervision, defined as the TC management who are from the EPO headquarters.

The use of bureaucratic mechanisms (i.e. rules, programmes, procedures) (Galbraith, 1973) is another way that EPO headquarters can observe the TC behaviour. Both Doz & Prahalad (1981) and Roth & Nigh (1992) discussed bureaucratic forms of monitoring in the parallel problem of MNC headquarters–subsidiary issues. The EPO headquarters increases the amount of information it has about the actions of the TC through headquarters supervision and bureaucratic monitoring mechanisms, thus limiting the TC-level behaviours and actions that are incompatible with those of the EPO headquarters.

Proposition 6: *The more difficult it is to monitor the activities and behaviour of the TC, the greater the likelihood of adopting a TC office as the mode of operation.*

Information asymmetry between the EPO headquarters and its TC offices will lead to more difficulties in using headquarters supervision and bureaucratic mechanisms as a management tool (Fama & Jensen, 1988). From an AT perspective, TC offices with a high level of specialized information about the local market and marketing activities will make it more difficult for the EPO headquarters to monitor behaviour and decisions. TC offices frequently have broad knowledge about the local market and market-specific activities. They are in particular better informed than the EPO headquarters about the nature of the local customer's demand, the local competition and the cost of serving the local market with specific activities and investments. This argument is derived from similar observations, for instance, in inter-organizational settings. As early as Simon (1976), it was observed that employees are often more knowledgeable than their supervisors on many subjects. Also, Heide & John (1988) observed that distributors frequently have extensive knowledge about the downstream market for a manufacturer's product. If such information as-

symetries exist, “in-house” TC arrangements may enhance the overall efficiency of the EPO by making decisions on the basis of superior information (Dutta *et al.*, 1999). If the EPO does not have its own TC office (i.e. local reps hold the superior information), it may make decisions based on information asymmetry. From the perspective of the EPO headquarters, only its TC office or local reps possess the superior information about local market conditions. Thus, any decisions made by the EPO headquarters without the information provided by a local TC or reps will be less informed. The core of this argument is that superior information is of vital importance to the EPO and “in-house” TC arrangements are therefore preferable.

Proposition 7: *The more important the local knowledge and specialized information is to the EPO, the greater the likelihood of adopting a TC office as the mode of operation.*

TC offices’ autonomy also presents monitoring difficulties (Garnier, 1982). Autonomy may be given because the TC office is in a better position to evaluate the needs and demands of the particular exporters that it serves. The alternative to monitoring could be the use of incentives (Hedlund & Rolander, 1990) to limit goal incongruence between the EPO headquarters and the TC offices. However, in a TC office context, outcome measurability and outcome uncertainty are two factors that could make it difficult and costly to use incentives. The more difficult it is to measure the outcome, the more complicated it is to determine

when the outcome has been attained (Eisenhardt, 1989). The nature of the TC office’s job and environment may make it complicated to specify in advance the precise outcomes that are wanted (Walsh & Seward, 1990).

Proposition 8: *The more difficult it is to measure the outcome of the export promotion activities, the greater the likelihood of adopting a TC office as the mode of operation.*

The costs of partition in space and time are aggravated in global markets that cover continents and time zones. Despite modern transportation and communication technology, frequent direct on-site monitoring of TC activities and behaviours presents a challenge to the EPO headquarters (Sashi & Karuppur, 2002). On the other hand, with TC offices dispersed across many different markets and countries, the costs of communication, coordination and supervision are likely to be high. Monitoring is easier when TC offices are concentrated in fewer locations. Independent local reps may reduce the cost for regional monitoring facilities (i.e. the use of expatriate in management positions).

Proposition 9: *The greater the geographical distance, the greater the likelihood of adopting local reps as the mode of operation.*

Proposition 10: *The greater the cost of communication, coordination and supervision, the greater the likelihood of adopting local reps as the mode of operation.*

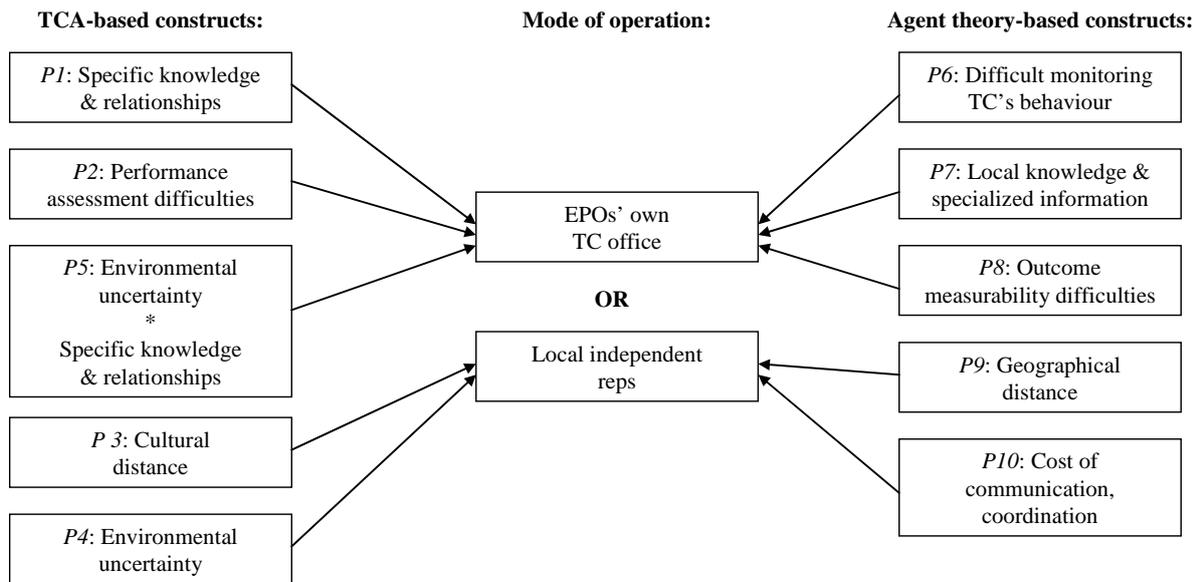


Figure 1 A model of the impact of TCA-based and agent theory-based constructs on EPOs' mode of operation in overseas markets

The framework developed in this section proposes relationships between TCA-based constructs and the relationship between the EPO headquarters and its TC offices, the management of the TC offices and the choice of TC offices versus independent representatives (P₁₋₅). The propositions include asset specificity, problems in evaluating the outcome of EPOs and the impact of environmental uncertainty. Agency theory-based propositions are also developed (P₆₋₁₀). The propositions include the impact of uncertainty, difficulties in measuring outputs and the cost of monitoring outcomes. The two theoretical perspectives appear to be complementary. TCA was originally developed to understand problems related to the boundaries of the firm – i.e. a better understanding of TC offices vs. independent reps decisions. AT was advanced to understand contractual arrangements between a firm and its employees – i.e. monitoring and compensating TC offices and independent reps. However,

a certain degree of overlap between TCA-specific and AT-specific variables are also found. Both proposition 1 and 7 and proposition 2 and 8 share common cores and predict the same EPO headquarter behaviour.

Illustrative cases of EPOs and their networks of TCs

The role of EPOs as a service to drive exports and investment is seen as a valuable national asset in many countries. In broad terms, the EPOs are organized with headquarters and overseas networks of TCs that are comparable across countries and industries. We are, however, also observing that countries and industries organize their EPOs and associated TCs differently. Table 2 illustrates some selected EPOs and their overseas networks.

Table 2 Selected EPOs and their overseas networks of TCs (Source: Relevant websites for each EPO)

Export Promotion Organization:	Representation abroad:
Austrade:	51 main offices, 31 subposts, 35 outposts in more than 60 countries
Trade Queensland (Australia):	11 regional overseas offices
Western Australia's International Trade and Investment Offices:	14 regional overseas offices
NZ Trade & Enterprise:	4 regional overseas offices
Japan External Trade Organisation:	73 offices in 54 countries
Hong Kong Trade Development Council:	40 commercial centres overseas
Korea Trade-Investment Promotion Agency:	93 offices in 68 countries
UK Trade & Invest:	150 overseas offices
Enterprise Ireland:	32 overseas offices
Israel Export & International Corporation Institute:	85 overseas offices
The Canadian Trade Commissioner Service:	More than 150 overseas offices
USDA Foreign Agriculture Service:	FAS staff 100 offices in 82 countries, of which 19 are agricultural trade offices (i.e. individual offices)
Pennsylvania Trade Representatives:	23 local representatives abroad
Swedish Trade Council:	61 offices in 53 countries
Norwegian Seafood Export Council:	Offices in 11 countries

The list in Table 2 indicates that the majority of the EPOs have organized their overseas representations as TC offices. However, as an example, Pennsylvania Trade Representatives have 23 independent local representatives at overseas markets. According to studies of relationships between EPO headquarters and their representations abroad, the management and control of overseas representations are justified by the share number of EPOs and their networks of TCs, the importance attached to those organizations by governments and the lack of empirical studies exploring those issues.

Conclusions

A conceptual framework to examine the relationship between export promotion organizations' headquarters and their trade commissioners overseas, the management of the trade commissioners and the choice

between trade commission offices or independent representatives has been developed in this article. Two well-known theoretical frameworks have been used to shed some light on the choice between independent local reps vs. EPOs' own TC offices. An AT perspective and a TCA perspective are complementary perspectives on this choice. Research propositions emanating from the two theories have been developed. The conceptual framework developed assists in identifying issues for future research and empirical investigation.

This article provides new perspectives on how to study export promotion organizations and trade commissioners. An important aspect of managing EPOs is related to their design. First, depending on the tasks they are performing, including identifying export opportunities, networking, servicing exporters and export information gathering, an EPO needs to decide whether it should have its own TC office or utilize independ-

ent local representatives. Second, if the EPO decides to employ its own TC office, the design of the control and reward system needs to be directed towards an optimal utilization of its export promotion efforts.

The research propositions developed provide groundwork for empirical investigation and further theoretical development. A suggestion for future research is to identify EPOs using different modes of operation and examine the rationale for their decisions. The propositions also provide guidelines for formulating and implementing decisions related to overseas representations and their mode and management. Some progress is believed to have been made in this article, but future research will establish the generalizability and illuminate the consequences, as well as the causes, of the TC office versus independent local representatives.

Like many other theoretical frameworks, the one developed in this article has its

limitations. First, two polar forms of operation – own TC office and independent local reps – have been the focus of interest in this article. Alternative forms between those polar forms (i.e. own TC office staffed with local personnel, own TC office supervised by local managers) should also be explored in future research. Second, the propositions advanced here are not suggested as an all-inclusive answer to EPOs' modes of operation. Other factors may also enter as powerful explanations. An organization theory perspective (Anderson & Oliver, 1987; Cravens *et al.*, 1993, 2004; Deshpandé & Webster, 1989; Oliver & Anderson, 1994), the interdependence model of subsidiary management (Astley & Zajac, 1990; O'Donnell, 2000) and norms and power in marketing relationships (Berthon *et al.*, 2003; Heide & John, 1992; Stern & El-Ansary, 1992) may offer additional insight into and explanations for the problem raised in this article.

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