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Introduction

Entry mode, or the way companies choose to operate in foreign markets, is a critical business decision, and the theoretical contributions in the area have been more advanced than those concerning other topics of the firm's internationalization process (Andersen 1977). Extant research has tended to focus on the initial entry mode decision, while relatively few studies have addressed how businesses later change operation mode (Calof and Beamish, 1995; Chetty and Agndal, 2007). Hence, most current literature in this problem area is static since scholars have paid little attention to changes in the initial entry mode (Pedersen *et al.,* 2002). This finding depicts a serious void in our understanding of international business because most success in international business depends on the careful management and continuous development of operations.

For many companies, and especially companies at the early stages of internationalization, using independent intermediaries tends to be the preferred entry mode. The international success of many exporting firms hinges on the performance of these intermediaries (Root 1987; Petersen *et al.*, 2006). Several studies have found the performance of independent intermediaries is influenced by the characteristics of the interorganizational relations between the principals and the agents (e.g., Bello and Gilliland, 1997; Nes *et al.*, 2007). The performance, broadly speaking, may impact whether relationships with independent intermediaries are terminated or retained. Trust, commitment, control, and communication are important drivers (directly or indirectly) of performance in relations with independent intermediaries (Bello and Gilliland, 1997; Nes *et al.*, 2007). Whether the evaluations of the performance drivers and of performance itself are different between terminated and retained intermediary relationships is important for the exporters and for the intermediaries. For example, the intermediaries may use such insight to evaluate the likelihood of future contract termination when they consider eventual specific investments. Whether trust, commitment, control, communication and performance tend to improve after the intermediary is replaced is, of course, of high interest for exporters. The objectives of our study are to elucidate (1) whether the trust, commitment, control, communication and performance are different in relationships where the foreign intermediaries are replaced compared to relationships that are retained, (2) whether control and performance change after the replacement, and (3) whether objective 1 and 2 depend on the type of replacement (appointment of new independent intermediary or change to hierarchal operation mode). The

study applies interorganizational relationship theory in a new setting. We attempt to attain the objectives by surveying a sample of exporters twice with 5 years interval. We collected information regarding actual intermediary replacements in the 5-year period in the second survey. This study is the first to analyze the role of these variables in intermediary replacements, and it is the first to analyze the outcome of actual intermediary replacements.

Transaction cost theory postulates two main alternatives of organizing economic activity: market or hierarchy. In market solutions, the company outsources the tasks to an outside company (e.g., an independent export intermediary). In hierarchical solutions, the company integrates the tasks within the company (e.g., via a sales subsidiary or via home-based direct sales). In an on-going business, the replacement of an independent intermediary may have several outcomes (Benito *et al.,* 2009). The discussion in our study relates to two types of replacements. First, we characterize replacements whereby independent intermediaries are replaced by new independent intermediaries as market-to-market replacements. Second, we characterize replacements whereby independent intermediaries are replaced by a new hierarchal operation mode as market-to-hierarchy replacements. Independent intermediaries in our study are either agents or distributors (importers), and the hierarchal operation mode involves using a sales subsidiary or home-based direct sales. It has been argued that using agents represents a quasi-integrated operation mode (Klein *et al.*,1990; Bello and Lohtia, 1995). If this were the case in our study, it would make our market-to-market and the market-to-hierarchy distinction less meaningful. However, a study by Solberg and Nes (2002) found no differences between exporters' evaluations of agents and distributors concerning trust, commitment, and performance, but agents gave the exporter a higher degree of control. This indicates that control depends on the agent-distributor distinction, but that trust, commitment, and performance do not. Much of marketing's contribution to the original transaction cost theory has been identification of the range of intermediate governance structures between market transactions and internal organization. We do not distinguish between pure market and intermediate governance forms, but apply the market to market and market to hierarchy distinctions as two categories of independent intermediary replacements.

The rest of the paper is organized as follows: First, we review the literature on intermediary replacements. Next, we develop the hypotheses, and then describe the methodology and analysis. Finally, we discuss conclusions and the implications of the study.

Review of the intermediary replacement literature

In this section, we and critically review and integrate the literature pertaining to replacements of independent intermediaries. The operation-mode-change literature is only reviewed to the extent it concerns replacement of intermediaries.

The stages theories (or internationalization process theories) are some of the earliest research pertaining to changes in operation mode (Bilkey and Tesar, 1977; Cavusgil, 1984; Johanson and Vahlne, 1977, 2009). In the early stages of internationalization, companies tend to work through independent intermediaries. Movement to a new stage is motivated by increased knowledge of the foreign markets, and the knowledge serves to decrease uncertainty about making foreign investments. Firms moving from one stage to another tend to follow a pattern of increasing commitments, moving from the low-commitment operation mode that involves independent intermediaries to a more committed mode that involves hierarchical organization of the distribution (e.g. sales subsidiary). The stages models therefore may explain market-to-hierarchy replacements of independent intermediaries, but not market-to-market replacements. The stages models are also consistent with the opposite movement, for example the closing of distant subsidiaries by inexperienced born globals, and developments of new operations by the same born globals in close-by countries (Gabrielsson and Pelkonen, 2008).

The studies that concern replacements of intermediaries and operation mode changes draw on a mixture of theories from different traditions (transaction cost theory, agency theory, and behavioral theories). The mixture used may be influenced by the studies' respective focuses. The motives for market-to-market replacements may be different from the motives for market-to-hierarchy replacements. Some studies focus on operation mode change only (Gomes-Casseres, 1987; Calof, 1993; Calof and Bemisch, 1995; Pedersen *et al.*, 2002; Chetty and Agndal, 2007; Agndal and Chetty, 2007). Of those studies, only Pedersen *et al.* (2002) is directed specifically toward market-to-hierarchy replacements of independent intermediaries, while the other studies in the group pertain to all kinds of operation mode changes (e.g., distribution, production, licensing, etc.). Benito *et al.* (2005) and Petersen *et al.* (2006) include both market-to-market replacements and market-to-hierarchy replacements. Ellis (2005) uses intentions to terminate an independent intermediary as a dependent variable and does not include post-replacement alternatives.

While all of those studies contribute to our understanding of intermediary replacement, only Petersen *et al.* (2000), Pedersen *et al.* (2002), Benito *et al.* (2005), Ellis (2005), and Petersen *et al.* (2006) have independent intermediary replacements as their main

focus. The inferences from the studies that have independent intermediary replacements as their main focus seemingly are from two databases only (circa 80 replacements among Danish exporters and 86 replacements of domestic Chinese independent export intermediaries). The small sample sizes of actual replacements are partly because the studies concern changes within a defined period and partly because several exporters may be needed to find one case that is representative for the study's focus. The lack of research attention on independent intermediary replacement is surprising since the quality of the independent intermediary is heralded in many contexts as one of the most important prerequisites for export success.

The differences in focus we discuss above limits the generalizations that can be done across studies. Instead, each study, or series of studies using the same dataset, gives unique insight into the problem area, with little replication. Still, a few generalizations across studies can be suggested. Ellis (2005) and Petersen *et al.* (2006) both found a U-shaped relationship (also called "the trader's dilemma") between propensity to terminate the intermediary contract, or actual replacement, and performance attitude measures. Both studies expected market-to-market switches to be driven by low performance and market-to-hierarchy switches to be driven by high performance, but this was not confirmed in any of the studies. The importance of switching costs (Petersen *et al.*, 2000) and the related liability role of social capital (Agndal and Chetty, 2007) seem to be important deterrents of intermediary replacements. Whether growth in the host market stimulates switch to a more hierarchical operation mode has mixed support. Gomes-Casseres (1987) found that economic growth in the host market was a driver of switching operation mode from joint venture to wholly owned subsidiaries, and Calof (1993) found most mode changes were influenced by changed perceptions of sales potential. Benito *et al.* (2005), on the other hand, found export market growth not to be a significant predictor of intermediary replacements for either market-to-market replacements or market-to-hierarchy replacements. The change process seems to be only partly rational, and "gut feel" seems to play a role in most changes (Calof, 1993).

The research designs in previous studies are typically cross sectional or case studies. All studies except Ellis (2005) concern actual changes. The inferences from Petersen *et al.* (2000), Pedersen *et al.* (2002), Benito *et al.* (2005), and Petersen *et al.* (2006) concern motivators and deterrents of intermediary replacements, and are based on pre-change data of actual changes within a 5-year period. Their respective designs have longitudinal elements, but those designs do not encompass analysis of outcomes of intermediary replacements. The inferences from Gomes-Casseres (1987), Calof (1993), Calof and Bemisch (1995), Chetty and Agndal (2007, and Agndal and Chetty (2007) are based on analysis of post-change data of

actual changes only. Their designs may suffer from problems because of the time span between the problems studied and the data collection (e.g., human memory). To study the consequences of intermediary replacements and operation mode changes, a longitudinal design that measures the same variables pre- and post-replacement would add new insights.

There are two partners in an exporter-intermediary relationship, but all studies have collected data from the exporter only. All studies seem to assume that the exporter is instrumental in terminating the intermediary, but this is of course not always the case. For example, the intermediary may be dissatisfied with the principal due to quality problems, lack of profitability, lack of support, too narrow product line, or perhaps the intermediary received an exclusive offer from a more attractive competitor. Preferably, the dyad should be studied and not only the principal.

Finally, our understanding of replacement of exporter-intermediary relationships may expand from applying behavioral constructs from the well-developed interorganizational relations theory. This theory is based on transaction cost theory, agency theory, and behavioral theories. Transaction cost theory and agency theory are applied in several of the studies (e.g., Petersen *et al.*, 2000; Pedersen *et al.*, 2002; Benito *et al.*, 2005; Petersen *et al.*, 2006). However, no studies include behavioral constructs such as trust, commitment, and communication. Research in interorganizational relations in general (e.g., Morgan and Hunt, 1994) and international interorganizational relations (e.g., Leonidou *et al.*, 2011; Nes *et al.*, 2007) has shown these constructs may be instrumental in buyer-seller relationships, and they thus may contribute to our insight into antecedents and consequences of replacements of exporter-intermediary relationships.

Development of hypotheses

There is a wealth of interorganizational literature, and a review of this literature is outside the scope of our study. Rather, we draw on the international and non-international studies that are most important for our line of reasoning and for the international setting.

The interorganizational relationship theories draw on economic and behavioral explanations of the exchange relationship. Economic theories include transaction cost theory (Williamson, 1985) and agency theory (Bergen *et al.*, 1992; Eisenhardt, 1989). Economic theories that explain the exchange relationships are characterized by factors such as uncertainty, specific investments, switching costs, information asymmetry, and opportunism. Behavioral explanations emphasize the roles of social structure, interdependence, norms, and

history in the relationship. The behavioral variables include variables like trust, commitment, communication, relationship distance, and cooperation. A poor relationship with the intermediate may be associated with poor performance, but a poor relationship may also be a reason for replacement by itself because a poor relationship gives little hope for future improvements. The behavioral constructs are essential in a more profound understanding of motives for independent intermediary replacement, and changes in the levels of the variables following the replacement are of vital interest as indicators of success or failure.

There are good reasons for an exporter to consider terminating its contract with an independent intermediary with unsatisfactory performance, poor communication, low trust, and unsatisfactory control of the marketing operations. Following an eventual replacement of the low-performing intermediary, the exporter may, in an ongoing operation, appoint a new independent intermediary or invest in a hierarchal operation mode (e.g. sales subsidiary or home-based direct sales). Replacing a low-performing intermediary with a new independent intermediary is quite straightforward with regard to economic motives. Replacing a low-performing intermediary with a hierarchal operation mode, however, implies the new unit will start on a low performance (and low income) level. A relationship characterized by high trust, and communication is a fine base for an exporter's knowledge development (Johanson and Vahlne, 1977, 2009), and the opposite is the case for low-performing relationships. Learning and knowledge development are core concepts in the internationalization process theories. Thus, we argue that the success of a transition to hierarchal operation mode is influenced by the behavioral variables where high scores have a positive impact and low scores have a negative impact. Moving from a market entry mode to hierarchy by acquiring a local company is also more likely to succeed if it is preceded by a history of exchange between the acquirer and the acquiree (Johanson and Vahlne, 2009). In such relationships, the parties have already developed a body of knowledge about each other. Finally, replacing a high performing independent intermediary implies that the exporter may have higher income base for a new hierarchal entry mode than in a case with a low performing intermediary.

The paradox that intermediary contracts are likely to be terminated when the intermediary fails, but sometimes even when the intermediary succeeds, have long been observed (Ellis, 2005; Kelly and Lecraw, 1985; Petersen *et al.*, 2006), and have been called "the trader's dilemma." The trader's dilemma implies that the link between the exporter's perception of the intermediary's performance is U-shaped, and this U-shape was established empirically by Ellis (2005) and Petersen *et al.* (2006). However, there is yet no clear empirical support for the premise that weak performance drives market to market switches

and strong performance drives market-to-hierarchy replacements. We expect in our study that market-to-market replacements of independent intermediaries have lower pre-replacement evaluations of performance than retained relationships. Based on our discussion above we also argue that market-to-hierarchy switches have higher pre-replacement evaluations of performance than retained relationships.

We distinguish between behavioral variables that concern the relation with the foreign intermediary (trust, communication, commitment) and variables that concern the foreign market (control and performance). The interorganizational relations in hierarchal operation modes are with direct customers rather than intermediaries, and comparisons of trust, communication and commitment between direct customers and intermediaries are quite meaningless. Control and performance, however, concern the foreign market where it is both highly interesting and meaningful to compare the effects of both market to market- and of market to hierarchy replacements. We expect that the decision to replace an independent intermediary with a new independent intermediary in general is based on sufficient situation analysis and effective implementation. Then, the replacements are successful, and the evaluations of trust, commitment, communication and performance should improve and post-replacement evaluations should be higher than the pre-replacement evaluations. Following the same reasoning, we argue that control and performance are higher after termination than before termination of the independent intermediary when the intermediary is replaced by a new hierarchal entry mode (sales subsidiary or direct home based sales).

Communication

The success of business relationships over the long run is contingent on the partners' ability to communicate effectively throughout the relationship's duration (Mohr, Fisher and Nevin, 1996), and indeed, effective communication between international business partners may be considered critical for global success (Griffith, 2002). The role of communication in a relationship with a foreign intermediary is somewhat extended compared to a domestic intermediary since the foreign intermediary is generally a more important information source regarding local domestic business factors (Benito *et al.*, 1993; Gripsrud *et al.*, 2006). Poor communication is an obstacle to obtaining such information. Lack of knowledge about foreign markets is considered a major obstacle to successful international operations, and such knowledge comes inevitably from the firms' own operations (Johnson and Vahlne, 1977). Lack of two-way communication will also likely result in asymmetric information between

the parties. Asymmetric information is related to opportunism in the sense that without a condition of asymmetric information, opportunism would be easily detected. Petersen *et al.* (2000) found the level of information asymmetry influenced the decision to replace the foreign intermediary. We have previously argued that low evaluations of the intermediary is a motive for terminating the relationship with the present intermediary, and high evaluations of the intermediary is a motive for replacing the independent intermediary with a hierarchal operation mode. In line with this, we expect that exporters' evaluations of the two-way communication with the intermediaries prior to replacements are lower in market-to-market replacements than in retained relationships, but higher than retained relationships in market-to-hierarchy replacements.

In line with our previous reasoning, we expect that the communication with the new independent intermediary is improved compared to the communication with the replaced intermediary.

Trust

Trust between partners is a key dimension in any business venture, and much research in the general marketing literature (e.g., Moorman *et al.*, 1992; Morgan and Hunt, 1994; Uzzi, 1997) and in the international marketing literature (e.g., Nes *et al.*, 2007; Johanson and Vahlne, 2009; Leonidou *et al.*, 2011) have studied the creation of trust in the relationships between exchange partners. Indeed, Samie and Walters (2003) found trust is the most common construct investigated in international relationship studies. Trust is an important ingredient for successful learning and for developing new knowledge (Johanson and Vahlne, 2009), which is a central factor in the stages theories of internationalization. Following the previous line of reasoning, we expect that the principal has lower pre-change trust in market-to-market replacements of independent intermediaries than in retained intermediaries, but higher trust in market-to-hierarchy replacements. After replacement, trust in the new independent intermediary is, as previously argued, expected to be higher than the trust in the replaced intermediary.

Commitment

Commitment has long been recognized as a central construct in firms' internationalization and in interorganizational relations. Management perceptions of exporting and their commitment in some form or another is related to export performance (Axinn, 1988, Aaby and Slater,

1989). This is necessary in order to build the distribution network and information channels crucial for the firm to engage in the export learning process (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977, 2009). This line of research, however, addressed commitment to international marketing as such. Our study addresses commitment to foreign intermediaries. Commitment to the foreign independent intermediary is positively related to the performance in the market (Nes *et al.*, 2007). The economic benefits that foster exporters' commitment include importers' specific investments, importers' role performance, and exporters' economic performance (Obadia, 2010). Commitment is also recognized in the general marketing literature as an essential ingredient for successful long-term relationships (Dwyer *et al.*, 1987; Moorman *et al.*, 1992; Morgan and Hunt, 1994). Trust and commitment are related because commitment to a partner increases the company's vulnerability to that partner's opportunistic behavior. An organization would hardly be committed to a partner that cannot be trusted, and trust is a major determinant of commitment (Morgan and Hunt, 1994; Nes *et al.*, 2007).

Morgan and Hunt (1994, p. 23) defined commitment as "An exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it; that is, the committed party believes the relationship is worth working on to ensure that it endures indefinitely." The definition itself is in conflict with relationship replacement. Thus, we expect that terminated relationships have lower commitment than retained relationships in both market-to-market replacements and in market-to-hierarchy replacements. As argued previously, we expect post-change commitment to be higher than pre-change commitment in market to market replacements.

Marketing control

Marketing control is the ability of the exporter to control the marketing undertaken in the importing country. Petersen *et al.* (2000) found that controllability (that is the exporter's ability to control the intermediary) correlated negatively with market-to-market switches. Madsen *et al.* (2012), however, found that managers keep control of decision making in their relations with foreign independent intermediaries to an extent that may negatively influence export performance. More control in these relations is not necessarily better. Internalizing local distribution gives higher control. This is one of the most attractive features of wholly owned distribution companies, and companies use scarce resources in internalizing distribution channels to obtain such control. Use of independent intermediaries gives less control, but the level of control will vary between companies and between individual

relationships. Building on the findings in Petersen *et al.* (2000), we expect that principals have lower pre-change control in market-to-market replacements than in retained relationships. We also expect pre-change marketing control is higher in market-to-hierarchy replacements than in retained relationships. Finally, we expect post-change control to be higher than pre-change control is in both market to market replacements and in market to hierarchy replacements.

Performance

Performance is related to commitment to the dealer in domestic settings (Morgan and Hunt, 1994) and to commitment to the foreign intermediary in international settings (Nes *et al.*, 2007). Previous studies of the role of performance in international intermediary replacements have studied performance in terms of various qualitative outcomes, for example, process performance (Ellis, 2005) and exporters' satisfaction with the performance in terms of market penetration, profitability, and effort made (Petersen *et al.*, 2006). Qualitative outcomes will often precede financial performance outcomes, because financial performance is considered a consequence of qualitative outcomes. We distinguish between achievements of strategic objectives as performance indicator (Cavusgil and Zou, 1994) and financial performance, and believe that achievement of both strategic goals and financial performance is influenced by intermediary replacements. We expect performance (financial performance and strategic goal achievement) follows the pattern discussed above: the pre-change performance of market-to-market replacements is lower than the performance of retained intermediaries while market-to-hierarchy replacements have higher performance than retained intermediaries do. Finally, we expect post-change performance to be higher than pre-change performance is in both cases.

We summarize this discussion with the following hypotheses:

H1a–f Pre-replacement evaluations in market-to-market replacements:
Pre-replacement evaluations of a) commitment, b) trust, c) communication, d) control, e) financial performance, and f) strategic goal achievement are lower in terminated exporter-intermediary relationships than in retained relationships when the independent intermediary is replaced by a new independent intermediary.

H2a–f Pre-replacement evaluations in market-to-hierarchy replacements:
Pre-replacement evaluations of a) commitment are lower while evaluations of b) trust, c) communication, d) control, e) financial performance, and f) strategic goal achievement are

higher in terminated exporter-intermediary relationships than in retained relationships when the independent intermediary is replaced by a new hierarchal entry mode.

H3a–f Post-replacement evaluations in market-to-market replacements:
Post-replacement evaluations are higher than pre-replacement evaluations of a) commitment, b) trust, c) communication, d) control, e) financial performance, and f) strategic goal achievement when the intermediary is replaced with a new intermediary.

H4a–f Post-replacement evaluations of market-to-hierarchy replacements:
Post-replacement evaluations are higher than pre-replacement evaluations of a) control, b) financial performance, and c) strategic goal achievement when the intermediary is replaced with a new hierarchal entry mode.

Methodology

We collected our pre-replacement data in a survey administered through personal interviews. Groups of three third-year business students interviewed personally a representative of an export company as part of an international marketing course. The teams were given in-class training in interviewing, and all teams wrote a report about the company they interviewed and the interview experience. The typical level of responsibility of interviewees within the sample firms was the export manager, product area manager, or – in many smaller firms – the general manager. We asked the firms to answer a number of questions regarding aspects of their export activities in four markets, two markets where they were successful and two problem markets, in order to ensure variations in the data. As many firms did not use an independent intermediary in one or more of the markets and some firms did not complete the questionnaire for all four markets, we ended up with information concerning a total of 212 cases of independent intermediaries from 117 case companies. The average sales volume of the total sample was NOK 557 million, which is very in line with the NOK 552 million average obtained by Solberg (2002) in his study of Norwegian exporters based on a randomized sample.

The same companies were approached again 5 years after the first study. We decided on the length of the time between the first and the second data collection by considering two opposing concerns. Number of actual independent intermediary terminations increase with time, and obtaining a sufficient number of cases is a critical issue in this research design. On the other hand, it becomes more difficult to follow the history of the cases as time goes by due

to problems related to reorganizations, mergers and spin-offs, new informants with insufficient command of the history, etc. We decided to conduct the second data collection 5 years after the first data collection as a compromise between the two concerns. Before the interview, we sent an introduction letter to all contact persons in the first survey in order to secure the right informant for the second interview. Whenever the contact person no longer was available, that person's name was useful in getting hold of their replacement. Interviews in the second study were conducted by telephone. We first asked whether there had been any replacement of the independent intermediaries in the countries studied in the first survey. If negative, the interview was ended. If positive, we collected new data. The questionnaire for the first survey and the questionnaire for the second survey are identical for the variables tested. Of the 117 possible companies/informants approached, the results were that 30 of the companies had replaced an intermediary. Some companies had replaced the intermediary in more than one market, and the companies represented a total of 48 cases of independent intermediary replacements. 28 of the remaining companies did not made any changes. We did not succeed in interviewing the remaining 59 companies for å variety of reasons: 14 no longer existed; the informant was unavailable or impossible to contact in 39 companies, and 6 companies declined to participate. Of the 48 cases with terminated independent intermediary, 19 were market-to-market changes, 14 were market-to-hierarchy changes, and the remaining 15 involved other operation mode changes. The post-termination sample sizes are small for statistical testing. This also implies that hypotheses may be rejected in our study that could have been accepted with larger samples.

Communication has, in the general marketing literature, been defined as "formal as well as informal meaningful information sharing between firms" (Anderson and Narus, 1990; Morgan and Hunt, 1994). However, this definition does not distinguish between information given and information received. This may be an important distinction in international marketing because the foreign intermediary is often an important information source regarding general host-country business factors beyond the dyad factors (Benito *et al.*, 1993; Gripsrud *et al.*, 2006). The more general definition of communication in *The Concise Oxford Dictionary* (1964) as "the way in which information is given (act of imparting esp. news; information given) and received" has this distinction. Our definition of communication combines the two definitions as follows: *communication is the way formal and informal information is given and received.* Our measure is from Nes *et al.* (2007), and consists of four items: formal and informal information given, formal and informal information received.

Moorman *et al.* (1993, p. 82) define trust as "willingness to rely on an exchange partners in whom one has confidence." Morgan and Hunt (1994) refer to several studies that suggest that confidence on the part of the trusting party results from the firm belief that the trustworthy party is reliable and has high integrity. In line with this, our measure of trust has three items taken from Nes *et al.* (2007), measuring the representatives' reliability, integrity, and trustworthiness. Control theorists distinguish between process and output control (Bello and Gilliland, 1997; Celly and Frazier, 1996; de Mortanges and Vossen, 1999). Output control includes monitoring the representatives' performance like sales, market penetration, etc., and process control means control of the factors that lead up to the performance. Mohr *et al.* (1996), in discussing the manufacturer's control over the dealer, emphasized that control implies that the controlled has relinquished some degree of autonomy over its decisions, which reflects restrictions in scope and latitude of decision making. Control implies that one party has achieved the ability to influence. In our model, we address the effects of exporter control over the intermediary, and the ability to influence distinction is important for our purpose. In terms of the process and outcome distinction, we emphasize the process dimension. Our study deals with marketing processes, and the exporter's perceived control of how activities related to place, price, product, and brand profile (the 4Ps) are executed in the importing country is an expression of this. The control measure consists of one item for the exporters' perceived control of each of the 4Ps. Our measure of commitment consists of three items from Nes *et al.* (2007), which are derived from Morgan and Hunt's (1994) definition: importance, maximum effort to maintain and maintain forever.

Different conceptualizations and operationalizations of export performance have resulted in a variety of measurement schemes that emphasize different dimensions of performance. Madsen (1987) divided the performance measures into three categories: profit, sales, and change measures. These categories explained 82% of the variations in a factor analysis of 14 performance measures (Shoham, 1998). This analysis indicates the three categories represented export performance quite well. Our financial performance items are from Nes *et al.* (2007), and consist of three subjective items which represent Madsen's (1987) three categories. In addition, we have a single-item measure of goal achievement akin to the measure used by Cavusgil and Zou (1994) in order to capture some of the strategic performance elements. The constructs were measured on a 1–5 Likert scale, where 5 is the highest score. The items are reported in table 1.

Table 1 Scale Items

	Factor score	*Alpha*
Commitment		*.87*
The relationship is something we feel strongly attached to.	.900	
The relationship is something we plan to maintain forever.	.898	
The relationship deserves our maximum effort to maintain.	.873	
Trust		*.79*
The representative is reliable.	.865	
The representative always does the right thing.	.807	
The representative has high integrity.	.842	
Communication		*.83*
We have a well-functioning formal system to give information in this relationship.	.817	
We have a well-functioning formal system to receive information in this relationship.	.824	
Also informally, we give satisfactory information in this relationship	.815	
Also informally, we receive satisfactory information in this relationship	.808	
Control		*.81*
We have good control with our brand profile.	.812	
We have good control with our product strategies.	.875	
We have good control over pricing policies.	.774	
We have good control with our distribution.	.740	
Performance		*.85*
How is performance in this country in relation to the total company performance (both domestically and internationally)?		
Profitability	.865	
Change in profits last three years	.935	
Change in sales last three years	.839	
Goal achievement		
We have reached our goals in this market.		

Analysis and discussion

Measurement reliability was tested by Cronbach's alpha (see table 1), which are all above .8 except trust (.79). Nunnally (1978) suggested coefficient alphas above .70 may suffice for

research at the early stages of development, while .80 should be the minimum in applied research. We conclude that the coefficient alphas are satisfactory in our study. The Pearson correlations of the pre-change variables are reported in table 2. All correlations are significant at the .01 level, but suggest eventual multicolliniarity problems are on an acceptable level.

We analyze H1a–f and H2 a–f concerning pre-replacement characteristics and discuss the findings. This is followed by analysis and discussion of H3a–f post-replacement consequences.

Table 2 Pearson correlations

	Communi-cation	Trust	Commit-ment	Control	Financial performance	Goal achievement
Communi-cation	1	.489	.516	.400	.275	.306
Trust		1	.451	.300	.240	.337
Commit-ment			1	.325	.453	.427
Control				1	.271	.360
Financial Performance					1	.632
Goal Achievement						1

All correlations are significant at the 0.01 level (2-tailed).

Pre-replacement characteristics

Hypotheses H1a–f and hypotheses H2 a–f were tested by ANOVA and Games-Howell post-hoc tests. The results are reported in table 3.

We expected in hypotheses H1 a–f that market-to-market independent intermediary replacements would have less favorable pre-replacement evaluations of the variables than exporters who retained the independent intermediary did. All differences are in the expected direction, but only trust is significant. Thus, H1a commitment is rejected, H1b trust is accepted ($p < 0.1$), while H1c communication, H1d control, H1e financial performance, and H1f goal achievement are rejected.

Hypotheses H2a–f concern pre-replacement characteristics of market-to-hierarchy replacements. We report the results from the Games-Howell test of mean score differences in table 3. We hypothesized lower commitment, but higher evaluations of trust, communication, control, financial performance, and goal achievement in terminated market-to-hierarchy relationships than in retained relationships. H2b trust, H2c communication, and H2d control were accepted, while H2a commitment, H2e financial performance, and H2f goal achievement were rejected. We also include the significance of pre-replacement differences between market-to-market and market-to-hierarchy replacements in table 3. Among the terminated intermediaries, market-to-market replacements are characterized as having significantly lower trust, lower communication, and lower control than market-to-hierarchy replacements do.

We tested the U-shaped relationship between independent intermediary performance and replacement (Ellis, 2005; Petersen *et al.*, 2006). The curvilinear effects were modeled as the squared effects of the two variables. We tested various models, including models that treated trust, commitment, control, and communication as covariates, but none were significant. The data in this study do not support the trader's dilemma expressed by the proposed U-shape between performance and intermediary replacement. The reasoning behind the proposed trader's dilemma is that successful intermediaries may be replaced by a new hierarchal operation mode, for example, the exporter finds that the business in the market has reached a sufficient level to merit a sales subsidiary. Poor performing intermediaries, on the other hand, tend to be replaced by new independent intermediaries. Thus, the intermediary is in danger of being replaced when the performance is high and when the performance is low. Though Ellis (2005) and Petersen *et al.* (2006) established the U-shaped relationship empirically, the explained variances in their models were low ($\leq$ 10% in all models), and they found no support for the hypothesis that poor performance drives market-to-market replacements and that high performance drives market-to-hierarchy replacements. The latter findings are confirmed in our data (see table 3), which show no difference between market-to-market replacements and market-to-hierarchy replacements concerning the two performance variables, financial performance and goal achievement (see table 3). Trust, control, and communication, however, seem to give better explanations of the type of replacement than the performance variables do. The relationships between exporter and independent intermediaries in market-to-hierarchy replacements are characterized as having higher levels of trust, communication, and control than relationships in market-to-market replacements do (see table 3).

Table 3 Testing Hypothesis 1 and Hypothesis 2

Games-Howell test of mean score differences pre-replacement data

	1.No change	2.Market to market change	3.Market to hierarchy change
Commitment			
Mean	2.25	1.89	2.31
Mean difference from no change		.37	-.06
Significance of difference from no change		n.s.	n.s.
Hypotheses H1a and H2a		H1a = rejected	H2a = rejected
Significance of difference 2-3 = n.s.			
Trust			
Mean	2.58	2.18	3.17
Mean difference from no change		.41	-.58
Significance of difference from no change		.10	.02
Hypotheses H1b and H2b		H1b = accepted	H2b = accepted
Significance of difference 2-3 = 0.00			
Communication			
Mean	2.27	1.87	2.82
Mean difference from no change		.41	-.55
Significance of difference from no change		n.s.	.03
Hypotheses H1c and H2c		H1c = rejected	H2c = accepted
Significance of difference 2-3 = 0.01			
Control			
Mean	2.07	1.95	2.89
Mean difference from no change		.12	-.81
Significance of difference from no change		n.s.	.02
Hypotheses H1d and H2d		H1d = rejected	H2d = accepted
Significance of difference 2-3 = 0.03			
Financial performance			
Mean	1.80	1.72	1.67
Mean difference from no change		.08	.13
Significance of difference from no change		n.s.	n.s.
Hypotheses H1e and H2e		H1e = rejected	H2e = rejected
Significance of difference 2-3 = n.s.			
Goal achievement			
Mean	1.51	1.05	1.29
Mean difference from no change		.45	.22
Significance of difference from no change		n.s.	n.s.
Hypotheses H1f and H2f		H1f = rejected	H2f = rejected
Significance of difference 2-3 = n.s.			

n no change = 179; n market-to-market change = 19; n market-to-hierarchy change = 14

Scale = 1–5

Post-replacement characteristics

We expected in hypotheses H3a–f that post-replacement evaluations would be more favorable than pre-replacement evaluations were. The results of the Wilcoxon Signed-Rank tests are reported in table 4.

Table 4 Testing Hypothesis 3 and Hypothesis 4

Wilcoxon Signed-Rank tests of differences in means pre- and post-replacement

	Commit-ment	**Trust**	**Communi-cation**	**Control**	**Financial performance**	**Goal achievement**
Market to market change						
Mean pre-change	1.89	2.17	1.87	1.95	1.72	1.05
Mean post-change	2.44	3.18	2.74	2.76	1.97	2.00
Difference	.55*	1.00***	.87***	.82***	.24 n.s.	.95**
Z-scores	-1.672	-3.101	-2.994	-2.800	-.762	-2.010
Hypotheses H3a–f	H3a accepted	H3b accepted	H3c accepted	H3d accepted	H3e rejected	H3f accepted
Market to hierarchy change						
Mean pre-change				2.89	1.67	1.29
Mean post-change				3.07	2.17	2.36
Difference				.19 n.s.	.51*	1.07***
Z-scores				-.473	-1.719	-2.549
Hypotheses H4a-c				H4a rejected	H4b accepted	H4c accepted

* = significant at .1; ** = significant at .05; *** = significant at .01.

The analysis of market to market replacements shows that all post-replacement means are higher than the pre-replacement means, and five of the six differences are significant. H3a commitment is accepted though the statistical significance is low (mean difference .55), z = -1,672, p < .1). These are new exporter-intermediary relationships and some commitment drivers (e.g., specific investments) may initially be quite low, but accumulate as business grows. Trust, communication, and control show significant improvements from the replaced intermediary. H3b trust is accepted (mean difference 1.00), z = -3,101, p < .01). H3c communication is accepted (mean difference .87), z = -2,994, p < .01. H3d control is accepted (mean difference .82), z = -2,800, p < .01. The effects of market-to-market replacement on the

performance indicators are mixed. Financial performance seems not to be affected in the time period from replacement to data collection (0–5years) since H3e is rejected (mean difference .24), z = -,762. This does not rule out that financial performance may improve later as a consequence of higher trust, commitment, communication, and control. H3d concerning goal achievement is accepted (mean difference ,95), z = -2,010, p < .05, which means that exporters felt a higher degree of goal achievement after the intermediary was replaced by a new independent intermediary. We conclude that the relationships and the strategic goal achievements with the new independent intermediaries are much improved compared to those with the previous intermediaries, but this improvement has not yet resulted in improved financial performance.

Hypotheses H4a–f concern the effects of replacing the independent intermediary with a hieratical entry mode (sales subsidiary or home-based direct sales). The Wilcoxon Signed-Rank tests in table 4 show that H4a control is rejected (mean difference = .19), z = -0,473. The improvement in financial performance in the market is significant, and H4b is accepted (mean difference .51), z = -1,719, p < .1. Goal achievement post–market-to-hierarchy replacement is significantly higher, and H4c is accepted (mean difference 1,07), z = -2,549, p < .001. We find it interesting that H4d control is not significant. Control is, according to transaction cost theory, a major motive for internal organization of economic activity, but the high level of pre-replacement marketing control in particular and the limited improvement in control after a change to internal operations indicate that increased marketing control is not a very important factor in these cases.

Implications and conclusions

Palmatier *et al.* (2007) suggested that 4 theoretical perspectives dominate interorganizational relationship performance: commitment-trust, dependence, transaction cost theory, and relational norms. Their empirical comparison of the frameworks suggested that commitment, trust, and relation-specific investments are key direct drivers of relational outcomes, while variables like opportunism, communication, relational norms, and dependence are not.

This study is the first we are aware of that has analyzed the pre-replacement trust, commitment, communication, marketing control, goal achievement, and financial performance characteristics of exporter – independent intermediary relationships that are retained compared to market-to-market replacements and market-to-hierarchy replacements. Also, being the first to use a longitudinal design for pre- and post-replacement comparison, we answer a call by Ellis (2005) to record the exporters' perceptions of intermediaries, before

returning later to search for actual instances. As pointed out by Ellis (2005), such instances are hard to come by, and the small sample in this study confirms the difficulties in obtaining a sample that's large enough for statistical analysis. Nevertheless, all differences in our study are in the expected direction and more than half of the hypothesized relationships are statistically confirmed. Still, the limited number of cases in our study may well have led to rejection of many of the hypotheses in table 3. The study should be repeated with a larger sample. We began with 212 cases of independent intermediaries from 117 case companies and found 48 cases of terminated intermediaries 5 years thereafter. This indicates that the total sample should be at least 1,000 cases in order to reach a satisfactory net sample for this type of research design.

Another issue is the dyadic nature of exporter-intermediary relationships. Previous research, including our study, collected data from the exporter only. However, a relationship has at least 2 parties, and the motives and initiatives for replacement may come from either party. There are several reasons why an independent intermediary would terminate a relationship, for example, an offer from a more attractive competitor, the intermediary is acquired by a competitor, changes in the intermediary's strategic product range, and the intermediary's dissatisfaction with performance. The need for dyadic data collection may be more urgent in market-to-market replacements than in market-to-hierarchy replacements because the latter include change of operation mode, which inherently is strongly motivated by the principal.

We also notice that the "trader's dilemma" of a U-shaped relationship between intermediary replacements and performance assumes that all replacements are motivated by the exporters' evaluations of the intermediaries. Intermediary-initiated replacements may distort the U-shape between the exporter's perceptions of intermediary performance and replacements. This may explain the relatively weak empirical support so far for the U-shape. There is a need for more research into this issue where the problem of intermediary initiated replacements are accounted for.

The most important implications of our research for managers of international operations are from the post-replacement data while the pre-replacement data give the most important normative business insights for independent intermediaries. Market-to-hierarchy replacements are characterized as having higher trust, communication, and control than retained relationships do (table 3), but not higher performance. The intermediary may be a valuable future partner for the principal, and it may be in the interest of the principal to acquire an intermediary with whom it has a good working relationship. If a buy-out is

contrary to the interest of the independent intermediary the intermediary may actively work to prevent this by building switching costs, for example, keep control of customer relations, build own brand, limit the principal's learning, and have the principal's products be a small part of the intermediary's total business. If a buy-out is of interest for the intermediary then the intermediary has a stronger bargaining position when she has a high degree of control with control the same resources (e.g. customer relations, brand, local technical competence). Therefore, control of the local resources are always beneficial for the intermediary when the principal evaluates to replace the intermediary with a sales subsidiary or home based sales office.

Trust, commitment, control, communication, and goal achievement were more sensitive to the different conditions in the study than financial performance was. The post-replacement financial performance of market-to-hierarchy replacements was higher than pre–replacement performance, but otherwise the differences in financial performance were not significant. Long-run financial performance is a goal in all for-profit organizations, and the other variables in our study are drivers of this goal. Improvements in the drivers precede improvements in the financial performance. When market-to-hierarchy replacements already seem to have absorbed the switching costs and obtain higher financial performance than the previous independent intermediary operation mode (table 4), then this must be an indicator of successful intermediary replacement and operation mode change.

The improvements in post-replacement evaluations (table 4) for both market-to-market and for market to hierarchy replacements are striking. These improvements are perhaps the most important managerial implications of this research for international marketers. The post-replacement evaluations are significantly higher for seven of the nine tests. Both market to market and market to hierarchy replacements are highly successful. Success on an aggregate level does not necessarily imply success on the individual level. Nevertheless, we believe our findings support the premise that managers of international operations may benefit from a dynamic management style of their independent intermediaries. A common saying states that reorganizations usually come too late and do not go far enough. There are opportunities for improved interorganizational relationships and higher performance for companies that are pro-active in reorganizing their international independent intermediary networks.

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