Three Essays on Governance in Exporter–Distributor Partnerships

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Meinen Eltern

Vorwort

Die vorliegende Arbeit entstand während meiner Tätigkeit als wissenschaftliche Mitarbeiterin am Lehrstuhl für Marketing der Technischen Universität Dortmund und in der Abteilung Industrielles Marketing und Unternehmensentwicklung des RIF e.V. Institut für Forschung und Transfer. Sie wurde im Herbst 2022 als Dissertationsschrift von der Fakultät Wirtschaftswissenschaften angenommen. An dieser Stelle möchte ich mich herzlich bei all denen bedanken, die mich auf dieser aufregenden Reise begleitet und unterstützt haben.

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Dortmund, Februar 2023 Fabienne Ruoß

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1 Introduction

1.1 Objectives of the Dissertation

The primary purpose of this dissertation is to contribute to the discussion on the influence of various governance mechanisms in international business. In particular, regarding exporters and their cooperation with independent foreign distributors, research reveals gaps in understanding how governance mechanisms work. However, despite its relevance to successful export management, research on this topic is characterized by generalized assumptions, and the results from domestic settings are often merely transferred to international settings (Cavusgil, Deligonul, and Zhang 2004). In contrast to studies focusing on domestic relationships, empirical studies on governance mechanisms applied in cross-cultural settings remain comparably scarce, generating many opportunities for further investigation (Burkert, Ivens, and Shan 2012). Along these lines, export researchers have called for studies that provide insight into the applicability of various governance strategies (Obadia, Bello, and Gilliland 2015) in diverse cultural settings (Ju and Gao 2017).

Furthermore, previous governance research has predominantly examined larger exporting firms, whereas studies on smaller firms are scarce (e.g., Cao et al. 2018). Obadia and Vida (2006) asserted that distinguishing between small- and medium-sized enterprises (SMEs) and larger firms based on their unique characteristics is necessary in exporting. Managing international partnerships is essentially different for SMEs because, among other things, their management approaches and governance procedures tend to be less formal (Quinn 2011; Ramon-Jeronimo, Florez-Lopez, and Araujo-Pinzon 2019). Nevertheless, few studies have focused on SMEs in the export context (e.g., Obadia, Vida, and Pla-Barber 2017; Ramon-Jeronimo, Florez-Lopez, and Araujo-Pinzon 2019).

Finally, although extensive knowledge exists on incentive schemes from other principal–agent dyads (e.g., employer and employee; e.g., Shahzadi et al. 2014; sales manager and sales representative; e.g., Mallin and Pullins 2009; Miao and Evans 2014), scarce research has been conducted on the effects of incentive measures applied to independent distributors. By examining the interactions of incentive and control measures, this research further contributes to the body of knowledge on the applicability of various governance strategies. In summary, the dissertation focuses on the questions in Table 1.

Table 1 – Research Questions of the Dissertation

Part of Dissertation	Research Questions
Essay I	What is the state-of-the-art knowledge concerning the operation of various governance mechanisms in the context of exporter–distributor relationships?
Essay II	How do SMEs support and steer distributors to strengthen cooperation and ensure high levels of market success?
Essay III	How do different incentives affect the distributor's cooperation with and dependence on the exporter and, ultimately, its export performance?
	How do incentives and control measures interact when applied simultaneously?

1.2 Content of the Dissertation

The dissertation comprises three essays investigating exporter–distributor relationships based on different methodologies. Essay I provides a detailed analysis of the state-of-the-art operation of various governance mechanisms in exporter–distributor relationships. Based on previously defined criteria, peer-reviewed academic articles were selected for the literature review. Studies were examined regarding their findings about the consequences of applying at least one of the four governance mechanisms: (1) contractual governance, (2) monitoring mechanisms, (3) relational governance, and (4) incentive mechanisms. As a result, a roadmap for further research is provided.

Table 2 – Outline of Study in Essay I

Essay I: "A Systematic Literature Review on the Consequences of Governance Mechanisms in Exporter–Distributor Relationships"	
Purpose	Provides a detailed analysis of the current knowledge on the operation of various governance mechanisms in exporter–distributor relationships
Method	Systematic literature review, keyword searches in databases and peer-reviewed academic journals, snowball principle, abstract and full-text criteria-based screening for inclusion
Context	Empirical investigations of consequences of contractual governance, monitoring mechanisms, relational governance, and incentive mechanisms in exporter–distributor investigations
Sample	N = 33 articles published during the past 25 years
Analysis	Summary and classification of reported findings on the effects of investigated governance mechanisms

The study in Essay II is characterized by a qualitative study design. Based on interviews with leading managers of German small- and medium-sized exporters, the best practices for distributor governance are examined. Thus, several governance measures applied by these exporters are identified. Furthermore, the study provides detailed managerial advice for any exporter's daily business with international distributors.

Table 3 – Outline of Study in Essay II

Essay II: "How to Successfully Manage Collaborations with Independent Export Distributors – Empirical Insights from German Small- and Medium-Sized Enterprises"	
Purpose	Identification of governance measures by exporting SMEs to steer international distributors
Method	Qualitative in-depth interviews
Context	Evaluation of current partnerships with cross-border distributors
Sample	N = 13 representatives in leading positions of German small- and medium-sized exporters, $n_{video\ call} = 12$, $n_{personal} = 1$, $M_{duration} = 73$ minutes
Analysis	Qualitative content analysis using MAXQDA (v. 2020.4.2) from VERBI Software GmbH

Essay III is devoted to the influence of social and economic incentives on export performance. Therefore, the underlying mechanisms of the two incentive measures are examined in a differentiated manner, considering distributor cooperation and dependence. In response to requests from the research community drawing on the results of Essay I, the interaction of the incentive measures with the control measures output and process control is also examined. The results demonstrate the effects of various incentive-control combinations, allowing recommendations for practical action.

Table 4 – Outline of Study in Essay III

Essay III: “The More, the Better? The Applicability of Incentive and Control Instruments for Distributor Governance”	
Purpose	Investigation of social and economic incentives as drivers of export performance and how incentive measures interact with output and process control
Method	Standardized online survey distributed via a business-to-business-specialized panel provider
Context	Assessment of relationship, control, and performance aspects based on a partnership with an international distributor chosen by the respondent
Sample	N = 189 SMEs (<500 employees, <50 million € turnover/year), 72.5% male; M_{age} = 48.67, 23.8% (76.2%) young (mature) partnerships, mixed-industry sample
Analysis	Descriptive analysis with IBM SPSS Statistics 28.0.0.0 (190) and partial least squares (PLS) path modeling with SmartPLS 3.3.3 software by Ringle, Wende, and Becker (2015)

2 Essay I – A Systematic Literature Review on the Consequences of Governance Mechanisms in Exporter–Distributor Relationships

2.1 Abstract

Despite its relevance to the successful management of distributors, knowledge about the applicability of governance mechanisms to exporter–distributor relationships and its implications is deficient. In order to illustrate the current state of knowledge, the present systematic literature review overviews findings that concern the implications of different forms of governance for distributor behavior and export performance. The careful execution of a literature selection process yielded a final set of 33 articles that were assigned to four research areas that reflect specific governance mechanisms, namely (1) contractual governance, (2) monitoring mechanisms, (3) relational governance, and (4) incentive mechanisms. The findings of the study uncover inconsistent results within the four research areas and research gaps that generate promising avenues for future research.

Keywords: *exporter–distributor relationships, literature review, contractual governance, monitoring mechanisms, relational governance, incentive mechanisms*

Additional Notes:

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2.2 Introduction

The governance of distributor relationships is a major determinant of export performance because the distributors' actions exert a direct impact on success of the exporter in the foreign market (Aulakh and Gençtürk 2008; Ju and Gao 2017; Navarro-García, Sánchez-Franco, and Rey-Moreno 2016; Yang, Su, and Fam 2012). The distributor serves as a formally independent front-end entity that represents the exporter in various marketing tasks (Nevins and Money 2008; Trent and Monczka 2002), which is why exporters need to establish viable partnerships with their independent distributors (Aulakh, Kotabe, and Sahay 1996; Luo 2007; Wathne and Heide 2004).

The term "governance," when applied to exporter–distributor relationships, refers to all cooperative and coordinative efforts by the exporter to direct the actions of the distributor toward pursuing the objectives of the former and those of the partnership (Homburg et al. 2009; Stadlmann and Štrach 2020). Usually, more than one governance measure is employed, resulting in the formation of a governance portfolio (Gibbons 2005; Gilliland and Kim 2014). Since the "distributor faces competing demands for their limited time and attention from the many firms they represent" (Obadia, Bello, and Gilliland 2015), an efficient governance portfolio should simultaneously control and incentivize the foreign distributor (Griffith and Myers 2005; Dong, Tse, and Hung 2010) and should be tailored to the particularities of the partnership (Gilliland and Kim 2014; Griffith and Myers 2005; Obadia, Bello, and Gilliland 2015). This approach is intended to maximize the performance of the exporter in the foreign market but also to mobilize active support on the part of the distributor which, in turn, paves the way for a stable and durable business relationship (Dong, Tse, and Hung 2010). From a practical perspective, it is essential that export managers understand the complexity of distributor governance (Cavusgil, Deligonul, and Zhang 2004) and the difficulty of identifying governance activities that not only prevent destructive behavior but also promote a mutually supportive exchange relationship (Aulakh and Gençtürk 2000).

Despite its relevance to successful export management, research on the subject is characterized by the use of blanket assumptions, and domestic findings are oftentimes simply transposed to the international setting (Cavusgil, Deligonul, and Zhang 2004). Unlike studies that focus on domestic relationships, empirical studies on the governance mechanisms that are applied in intercultural settings remain scarce, which creates numerous opportunities for further investigation (Burkert, Ivens, and Shan 2012). Accordingly, export researchers have called for studies that offer insights into the applicability of various governance portfolios (Obadia, Bello and Gilliland 2015) in various cultural settings (Ju and Gao 2017).

This article is a consolidated review of the literature on distributor governance that has been published in the past 25 years. The purpose of the study is to provide a detailed analysis of current knowledge about the operation of various governance mechanisms in the context of exporter–distributor relationships. A literature selection process that was based on predefined criteria yielded the set of articles that is reviewed throughout this study. For ease of exposition, the articles that were identified as relevant were assigned to four research areas, which represent the different governance mechanisms that are mentioned regularly in the export channel literature, namely (1) contractual governance, (2) monitoring mechanisms, (3) relational governance, and (4) incentive mechanisms.

This study contributes to existing research in several ways. First, it reviews findings on the impact of various governance mechanisms on the behavior of the distributor and on performance outcomes within the four research domains. It thus contributes to existing research by overviewing the implications of various governance mechanisms. This allows inconsistent results to be isolated and the need for research within each of the four domains to be highlighted. Second, the literature review identifies research domains that have largely remained unexplored to date. In this way, directions for future research and example research questions can be synthesized from the review of the literature on each domain.

The article is structured as follows: the first section describes the background to the differences between domestic and international distribution partnerships from the perspective of distributor management. The section in question indicates that findings from the domestic context should not simply be transposed to that of international partnerships due to differences in relational circumstances. Subsequently, the four governance mechanisms are defined, and their use is explained. The third section is dedicated to the literature selection method. The selection procedure and the selection criteria are outlined. The fourth section contains the results of the literature review, which are structured around the four governance mechanisms. At this stage, the content of the studies is discussed and compared. In the fifth section, the insights that were gained from the literature review are summarized for each research domain, and avenues for future research are outlined.

2.3 Background

2.3.1 Distributor Management in Domestic and International Partnerships

Relationships with international distributions differ from relationships with domestic distributors in many ways. Differences in structural, strategic, and operational aspects call for highly specific refinements. Those kinds of adaptations often translate into more intensive resource use, relative to domestic distribution partnerships (Leonidou et al. 2011). Another key difference is that international relationships entail a relatively large amount of uncertainty and, consequently, risk, which results from the different factors that characterize overseas partnerships (Andersen and Buvik 2001; Barnes et al. 2010; Cavusgil, Deligonul, and Zhang 2004; Katsikeas, Skarmeas, and Bello 2009).

Even multinational companies that are seasoned exporters encounter difficulties in communicating with international distributors and understanding their individual practices and idiosyncratic standards (Burkert, Ivens, and Shan 2012). The most prominent factor is the perceived overall distance between the organizations that are involved, which is significantly higher than in domestic business relationships (Aykol and Leonidou 2018). Aykol and Leonidou (2018) noted that international sales relationships are characterized by a certain degree of geographic, psychological, and cultural distance. In particular, there are differences in culture, language, and values that become more pronounced as the distance between domestic and foreign markets increases (Aykol and Leonidou 2018). This distance can ultimately lead to the misalignment of goals (Dou et al. 2010) and potential misunderstandings and disagreements, which, in turn, produce ineffective and low-performance export relationships (Homburg et al. 2002). Moreover, distance increases the likelihood of relationship-damaging behavior and further impedes the implementation of governance measures (Cavusgil, Deligonul, and Zhang 2004). For the exporter, this makes monitoring, controlling, and evaluating international business partners complicated (Cavusgil, Deligonul, and Zhang 2004; Li and Ng 2002).

Few studies have investigated the differences between the implications of domestic and international business relationships. Homburg et al. (2009) investigated the differential effects of trust in domestic and transnational buyer-supplier relationships and found that trust is significantly lower in the international constellations. Samiee, Chabowski, and Hult (2015) found that the parties may share few values, which highlights the complexity of international business relationships. Griffith and Myers (2005) investigated the impact of relational governance (i.e., information exchange, flexibility, and solidarity) on performance in domestic as well as in international relationships. Their results suggest that the implications of relational governance for performance are generally positive due to the increase in the effectiveness of cooperation when information exchange and solidarity are adjusted to the cultural-norm expectations of the partner firm. However, flexibility does not appear to have a significant impact on improvements in performance (Griffith and Myers 2005).

2.3.2 Governance Mechanisms in Exporter-Importer Relationships

According to agency theory, the principal-agent problem shapes exporter–distributor relationships. The critical assumption is that individuals and organizations “are self-interested and seek to maximize their personalwelfare” (Braun and Guston 2003, p. 303) which is called the principal agent problem. Since exporters do not possess formal control and authority over their foreign distributors, governance mechanisms play a pivotal role in the management of different interests within international relationships (Aulakh and Gençtürk 2000).

Governance mechanisms determine how the cooperation between two parties is coordinated and regulated as well as the processes and mechanisms that can be used to organize and manage the business relationship (Heide 1994). They are understood as “safeguards that firms put in place to regulate interfirm exchange, minimize exposure to opportunisms, protect transaction cost investment, and promote the continuance of relationships” (Burkert, Ivens, and

Shan 2012, p. 545; Jap and Ganesan 2000). The different means of governing distributor partnerships are discussed on the following pages.

2.3.2.1 Contractual Governance

Contractual governance is based on the formulation of written contracts, which build a legal basis for foreseeable issues within a partnership (Aulakh and Gençtürk 2008). A formal contract is generally considered to be an effective tool for overcoming potential disagreements and for ensuring that each partner will strive to achieve the strategic goals of the partnership (Dwyer, Schurr, and Oh 1987; Homburg et al. 2009; Poppo and Zenger 2002). Highly specific contracts are considered to be particularly relevant to cross-border relationships, in which norms and expectations about, e. g., social interaction, law, politics, and business practices, may differ (Cavusgil, Deligonul, and Zhang 2004; Griffith 2010; Homburg et al. 2009; Katsikeas, Skarmeas, and Bello 2009). Entering into a contract entails the partial formalization of a relationship. A contract requires the parties to specify and agree on relationship-specific standards for coordinating, monitoring, and evaluating the behavior of the parties (Dwyer, Schurr, and Oh 1987; Moorman, Deshpande, and Zaltmann 1993).

Contractual governance can have beneficial effects on the relationship in many ways. First, it is a cost-efficient means of creating rules for behavior, of minimizing the risk of misunderstandings, of providing guidance, and of instituting dispute-resolution mechanisms (Griffith and Zhao 2015; Luo 2002). Furthermore, formalizing a partnership can facilitate continuous cooperative behavior (Luo 2002) by disincentivizing opportunism (Heide 1994; Poppo and Zenger 2002; Zhou, Poppo, and Yang 2008) and reducing uncertainty about future actions of a partner (Homburg et al. 2009; Yang, Su, and Fam 2012). The more precise and unambiguous a contract, the better it appraises the partners of their individual roles, responsibilities, and goals. The policies and procedures that the contract establishes to guide the cooperation are also likely to be superior if its terms are concrete (Aulakh and Gençtürk

2008; Wu et al. 2007). Contractual agreements can enable the integration of independent distributors by creating hierarchical structures between autonomous partners (Klein, Crawford, and Alchian 1978; Stinchcombe 1985; Homburg et al. 2009). Wu et al. (2007) stated that contracting can also be advantageous for the exporter in the long run because it creates a basis for substantial flows of information between the partners. In this manner, the exporter can acquire knowledge about the foreign market and thus expand its corporate competencies (Wu et al. 2007).

2.3.2.2 Monitoring Mechanisms

Monitoring mechanisms are the procedures by which the exporter constantly collects information about the behavior and the performance of its partner (Sachdev and Bello 2014). Effective monitoring allows the exporter to learn how adequately its foreign partner is representing it and how successfully it is handling the market as well as to remind that partner of the presence and oversight of the exporter (Gilliland, Bello, and Gundlach 2010; Lal 1990). Sachdev and Bello's (2014) definition of monitoring does not imply that the exporter exercises formal control over the activities of the partner. Instead, the exporter merely examines the behavior and the performance of its local counterparty (Bello and Gilliland 1997). Monitoring mechanisms are intended to reduce opportunistic behavior on the part of the distributor and thus enable export performance to be optimized (Joshi 2009, Ju et al. 2011). Monitoring mechanisms are usually represented by the constructs output control, process control, and social control. Some authors refrain from considering those constructs separately and aggregate them instead (Holtgrave and Onay 2017; Obadia, Bello, and Gilliland 2015).

Output control is considered to be a formal monitoring mechanism (Aulakh, Kotabe, and Sahay 1996; Ju et al. 2011). It is introduced by the principal firm, and it is linked directly to an economic outcome (Anderson and Oliver 1987; Aulakh, Kotabe, and Sahay 1996). Output control is commonly referred to as a mechanism by which the principal firm can monitor the outcomes that its foreign distribution partners achieve (Aulakh and Gençtürk 2000; Aulakh, Kotabe, and Sahay 1996; Solberg 2006b). Crosno and Brown (2015, p. 298) defined output control more comprehensively by stating that it entails "the development, monitoring, and evaluation of performance outcomes such as sales volume, market share, inventory turn rate, and/or product quality." Output control maximizes the autonomy of the foreign partner. It should be designed so that the distributor can achieve predetermined goals alone (De Mortanges and Vossen 1999). Unlike other control methods, output control directly incentivizes the distributor to achieve particular sales outcomes (Anderson and Oliver 1987; Miao, Evans, and Shaoming 2007) but also makes it responsible for future performance (De Mortanges and Vossen 1999).

Process control is also considered to be a formal control mechanism because it involves the management procedures of the exporting firm (Aulakh and Gençtürk 2000). It captures "the extent to which the principal monitors the agent's behavior, or the means used to achieve desired ends" (Aulakh, Kotabe, and Sahay 1996, p. 524). Process control includes activities that are conducted by the exporter, such as training, marketing support, and the evaluation of the sales processes and behaviors of the distributing firm (Crosno and Brown 2015; Fram 1992). Process controls entail a relatively high degree of management effort due to the active involvement of the exporter (Aulakh et al. 1996). The monitoring of essential processes and strict guidelines mean that process control involves a certain loss of autonomy for the distributor (Heide et al. 2007; Kashyap et al. 2012).

In order to exercise process control successfully, the principal firm must acquire a comprehensive understanding of the workings of the foreign market and of the indicators and marketing activities that influence sales performance and other desired outcomes in it (Jaworski and MacInnis 1989). Within exporting firms, knowledge of such breadth is seldom available, and domestic-market expertise on processes and sales behaviors may not be readily transplantable abroad (Wu et al. 2007). Consequently, process controls are considered to have a different impact on performance outcomes in the international context.

Social control (also called "clan control") is defined as an informal control mechanism that focuses on common patterns of social interactions within a company (Ouchi 1979). The corresponding behavior is largely determined by the prevailing organizational culture (Aulakh and Gençtürk 2000). From the perspective of exporters, social control is a mechanism that causes the distributor exercise self-control and thus results in the emergence of a common organizational culture (Aulakh, Kotabe, and Sahay 1996; Ouchi 1979). This socialization process leads to the systematization and alignment of organizational values over the course of the partnership (Aulakh, Kotabe, and Sahay 1996). Organizational norms and values give the parties a sense of what is acceptable and of what is inappropriate (Aulakh and Gençtürk 2000). According to Jaeger (1983), social pressure then leads to partnership performance being viewed as a social obligation that is monitored through interactions on the personal level (Aulakh, Kotabe, and Sahay 1996). Furthermore, in socially controlled relationships, partners are willing to subordinate their personal short-term interests to common ones, nurturing a long-lasting relationship that focuses predominantly on mutual long-term goals (Aulakh and Gençtürk 2000; Solberg 2006a).

2.3.2.3 Relational Governance

Scholars have criticized the exclusive use of monitoring mechanisms because they focus only on the efficiency aspects of the business relationship while relational aspects are largely neglected (Carson et al. 2006; Hawkins, Wittmann, and Beyerlein 2008). Especially in international business, it can be difficult to incentivize a partner or to implement formal integration (Zhang, Cavusgil, and Roath 2003). Thus, relational governance is essential for structuring and nurturing economically efficient relationships with independent distributors (Heide and John 1992).

Relational governance concerns the extent to which the exchange relationship between an exporter and its distribution partner is governed by social norms and shared expectations about appropriate behavior (Dyer and Singh 1998). This supports the efforts of the partners to work toward common goals (Cannon, Achrol, and Gundlach 2000; Heide and John 1992). In past research, relational governance has been defined as "the extent that business exchanges are coordinated via social relations and shared norms" (Zhou and Xu 2012, p. 679). Norms are expectations about certain behaviors that are shared by a group of individuals (Heide and John 1992). Relational governance is most commonly operationalized through the constructs *flexibility*, *information sharing*, and *solidarity*, which are considered as key dimensions (Gençtürk and Aulakh 2007; Heide and John 1992; Ju et al. 2011; Zhang, Cavusgil, and Roath 2003). Relational governance is also called "relationalism" in the literature (e. g., Bello, Chelariu, and Zhang 2003; Skarmeas and Katsikeas 2001). Both terms refer to relational norms, which is why they are used interchangeably.

Relational behavior provides both parties with a basis for formalizing and legitimizing their business practices in the context of the underlying business relationship (Heide and Wathne 2006; Poppo and Zenger 2002). This allows the parties to understand each other's common behaviors and business practices (Oliver 1996, Yang, Su, and Fam 2012). Additionally, relational behavior promotes the emergence of mutual expectations through relational contracting (Heide and John 1992; Ju, Zhao, and Wang 2014). Furthermore, relational norms reduce uncertainty in decision-making, decrease monitoring costs, prevent opportunistic behavior, and increase productivity by encouraging honesty, mutual understanding, and adaptation (Ju, Zhao, and Wang 2014; Navarro-García, Sánchez-Franco, and Rey-Moreno 2016; Yang, Su, and Fam 2012). Thus, the social aspects of the cooperation are enhanced (Bello and Gilliland 1997), and the partnership can respond more effectively and more easily to unforeseen changes in market conditions (Zhou, Poppo, and Yang 2008).

2.3.2.4 Incentive Mechanisms

Bello and Zhu (2007) theorized that conflicts (e. g. agency conflicts and transaction cost constraints) motivate distributors to prioritize their business goals over those of the exporter and to withhold support for its offerings (Obadia, Bello, and Gilliland 2015). Furthermore, the prospects of a cooperative partnership are often compromised by the distributor representing several manufacturers and their product lines (Gilliland 2003; Gilliland, Bello, and Gundlach 2010). Limited time and attention encourage the distributor to choose one exporter over the others (Gilliland 2004; Gilliland, Bello, and Gundlach 2010; Obadia, Bello, and Gilliland 2015).

Exporters rely on incentive mechanisms to address these conflicts and to overcome constraints (Gilliland 2003; Morgan, Katsikeas, and Vorhies 2012). As Gilliland and Kim (2014) noted, the distributor regularly compares the effort that it is expected to expend to returns and engages in activities that “return the most reward for the least work” (Gilliland and Kim 2014, p. 366). In particular, if an exporter requests challenging or time-consuming services, the distributor might need to be motivated adequately to perform the relevant tasks to an acceptable standard (Katsikeas, Skarmeas, and Bello 2009), which would cause it to neglect exporters that offer less desirable incentive structures (Gilliland 2004).

In channel research, incentives are commonly defined as “behaviors or policies […] that are designed to motivate active intermediary support of the supplier’s agenda” (Gilliland 2004, p. 88). Incentives take the form of compensation and reward-specific activities or the attainment of concrete goals (Holmstrom and Milgrom 1994). They are used as a governance mechanism alongside monitoring and enforcement in order to ensure that partnership activities are focused on predetermined objectives (Gilliland 2004).

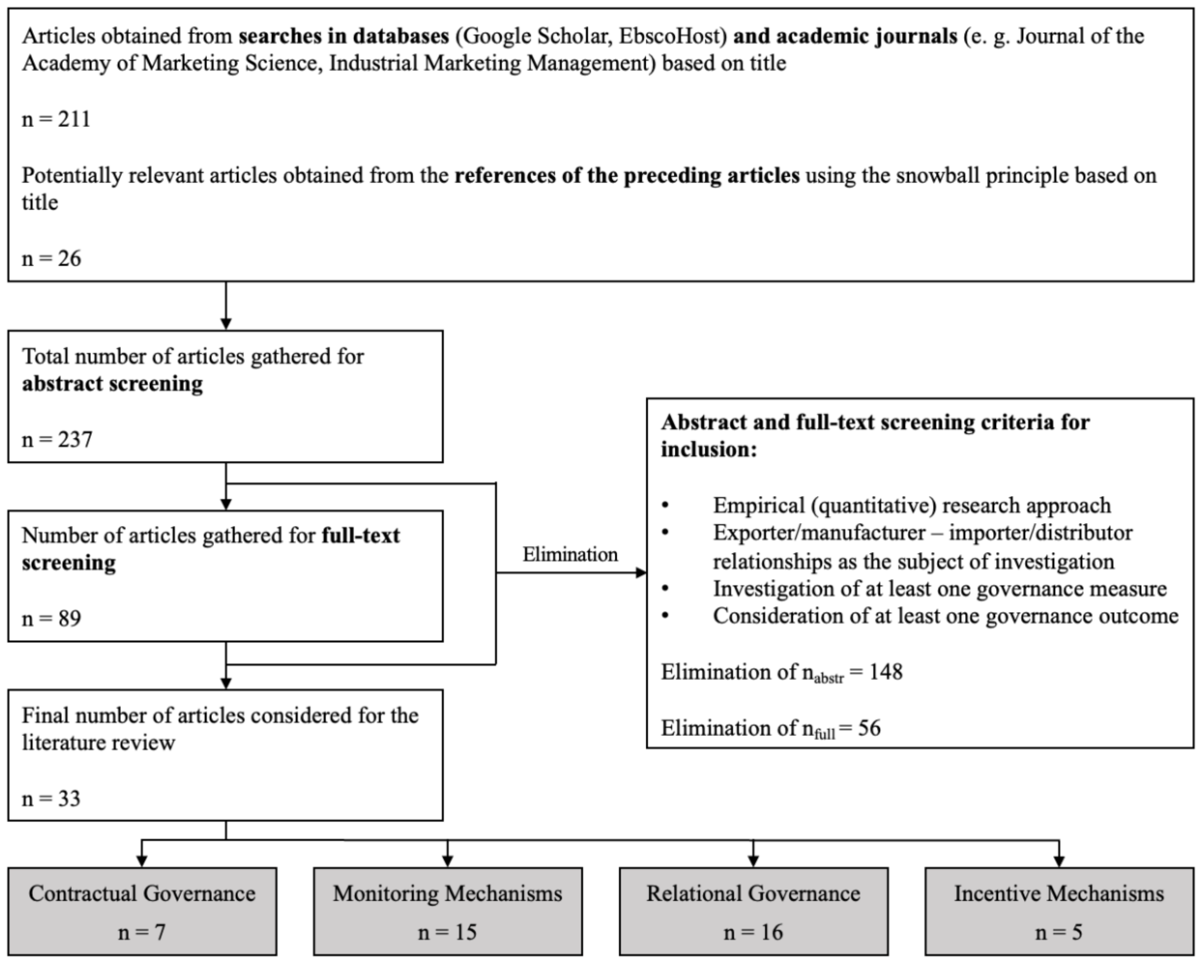
According to prior research, practitioners assemble portfolios of incentive measures that not only promote particular forms of distributor behavior (Frazier 1999; Gilliland and Kim 2014) but also respond to the complex and multifaced environment of the distributor, for which various compensatory tools are required (Feltham and Xie 1994). The most commonly employed incentive measures are price or margin premiums (Wathne and Heide 2000; Gilliland 2004) and bonuses for reaching sales quotas (Kim and Lee 2017), which foster extrinsic motivation. According to motivation theory (Ryan 2012; Benabou and Tirole 2003), extrinsic motivation is generated by tangible rewards that are often monetary, while intrinsic incentives are rather self-motivating. The exporter can enhance “the distributor’s capabilities and opportunities to profit from the exchange relationship” (Obadia, Bello, and Gilliland 2015, p. 50) through various means, such as socialization efforts (Dong, Tse, and Hung 2010), market development programs (e. g. sales promotion materials and trade-show cooperation; Obadia, Bello, and Gilliland 2015), and relationship-specific investments (Burkert, Ivens, and Shan 2012; Jap and Ganesan 2000). The export channel literature reports on different types of incentive systems. While some refer to high- and low-powered incentives (Kim and Lee 2017; Obadia, Bello, and Gilliland 2015), others write of economic and normative incentives (Dong, Tse, and Hung 2010) or of unilateral and bilateral ones (Gilliland, Bello, and Gundlach 2010).

2.4 Literature Selection Method

The existing literature was reviewed systematically in order to arrive at an overview of the current state of knowledge about the implementation of governance mechanisms in cross-border inter-organizational business relationships. The academic databases Google Scholar and EbscoHost were used for comprehensive research. The focus was primarily on international and peer-reviewed papers, which ensured that the articles were of sufficient scientific quality. Most of the literature search was conducted on the basis of descriptors such as *exporter–distributor relationship management*, *(international) distributor governance*, *(international) distributor motivation*, *(international) distributor control/monitoring*, and *export channel management/governance*. An additional search of several subject-relevant academic journals, such as *Industrial Marketing Management*, the *International Business Review*, the *Journal of International Business Marketing*, and the *Journal of the Academy of Marketing Science*, was carried out. Furthermore, other relevant articles were sourced through the snowball technique, applied to previously identified articles. A total of 237 potentially relevant articles were thus identified.

The elimination process began with the screening out of irrelevant articles on the basis of their abstracts. The remaining articles were then subjected to full-text screening. During both steps, the articles were reviewed in order to ensure that they were premised on a quantitative research design, that they investigated at least one governance measure, and that they reported on at least one performance- or relationship-related outcome. Furthermore, in order to ensure that the focus would remain on the autonomy of the partners, all studies of relationship constellations other than those between exporters (or manufacturers) and distributors (or importers) were eliminated. Finally, 33 articles qualified for review. The article selection procedure is depicted in Figure 1. The remaining articles were classified into four categories, namely (1) contractual governance, (2) monitoring mechanisms, (3) relational governance, and (4) incentive mechanisms. Since some articles examine more than one governance mechanism or assess the interaction of different governance measures, some articles appear in more than one category. The articles were published over a period of 25 years.

Figure 1 – Article Selection Procedure



2.5 Results of the Literature Review

2.5.1 Research on Contractual Governance

Empirical research on the effectiveness in international business has yielded mixed results. Examining the impact of contractual governance, Aulakh and Gençtürk (2008) discovered that contract formalization plays a significant role in enhancing relationship performance. Similarly, Griffith and Zhao (2015) investigated the relationship between contract specificity and contract violation. Their empirical results reveal that contract specificity has no significant influence on compliance with agreements. Furthermore, the findings suggest that the negative impact of contract violation on performance can be mitigated by monitoring compliance with contractual agreements (Griffith and Zhao 2015). However, other findings indicate that contracts and the extent to which they are individualized have an insignificant or even a negative impact on export performance (Griffith et al. 2014; Skarmeas, Zeriti, and Argouslidis 2019; Yang, Su, and Fam 2012). It is assumed that the costs and efforts associated with individualized contract creation outweigh the performance benefits of customization (Griffith et al. 2014; Yang, Su, and Fam 2012). Furthermore, the dynamic nature of exporter–distributor relationships and the environmental complexity of partnerships make it difficult for partners to design comprehensive contracts (Griffith and Zhao 2015). The resultant multiplicity of interpretations causes confusion and hampers compliance (Chang, Bai, and Li 2015; Dyer and Singh 1998; Skarmeas, Zeriti, and Argouslidis 2019).

A growing body of research acknowledges the influence of environmental dynamics in the host market. Studies have confirmed that the more similar the governance structures and the higher the uncertainty surrounding the exchange between the two partners, the larger the positive impact of contractual governance on performance (Aulakh et al. 2008; Carson et al. 2006; Cavusgil, Deligonul, and Zhang 2004). Aulakh and Gençtürk (2008) showed that the positive effect of contract formalization on relationship performance is significantly weakened when legal and economic uncertainty in the importing country increase. Griffith and Zhao (2015) reported similar results. The findings reveal that the effectiveness of contract specificity increases if the partner is from a globalized country with low business risk (Griffith and Zhao 2015).

Turning to the behavioral outcomes of contractual governance, research on domestic settings implies that formalizing a relationship reduces the likelihood of opportunistic behavior on behalf of the partner (e. g. Cavusgil, Deligonul, and Zhang 2004; Heide 1994). Conversely, studies that concentrate on cross-border relationships suggest that there is no direct link between contractual governance and opportunism (Cavusgil, Deligonul, and Zhang 2004; Wu et al. 2007).

The question of whether governance mechanisms are complements or substitutes is asked often in the governance literature (e. g. Ju and Gao 2017; Ju et al. 2011; Solberg 2006a, b). Scholars assume that the effectiveness of formal contracts is improved by the joint use of relational governance, highlighting informal measures and cooperation-based relational behavior (Griffith et al. 2014; Lush and Brown 1996). In particular, when there is no possibility of resorting to local or international legislation in the course of a given partnership, exporters tend to make more intensive use of informal mechanisms such as trust (moral contracts) and relational norms to ensure the efficiency of the collaboration (Cavusgil, Deligonul, and Zhang 2004). The results that were reported by Yang, Su, and Fam (2012) support the proposition that the function of relational governance is complementary, and Wu et al. (2007) showed empirically that trust-based governance strategies seem to exert a stronger positive influence on the market competence of the manufacturer and on distributor opportunism than contractual governance mechanisms. Conversely, Cavusgil, Deligonul, and Zhang (2004) failed to establish an interaction effect between trust and formal contracts. They inferred that “trust and formal contracts serve distinct functions in the export market” and that “in cross-border transactions, contractual clauses are not to be designed under the influence of relational perceptions" (Cavusgil, Deligonul, and Zhang 2004, p. 22-23).

Table 5 shows the studies on contractual governance in the context of the exporter-importer relationships that were identified. The theoretical rationale of each study is also listed in the table, as well as in the remaining tables, for completeness.

Table 5 – Consequences of Contractual Governance

Study	Theoretical Rationale	Relationship Structure/ Sample	Contractual Governance Measures	Consequences of Contractual Governance
Aulakh and Gençtürk (2008)	Neoclassical contract law	Exporter–Importer n=91 US exporters	Contract formalization x economic uncertainty x legal uncertainty	Relationship performance (+) Relationship performance (↓) Relationship performance (↓)
Cavusgil, Deligonul, and Zhang (2004)	Transaction cost analysis, interorganizational relationship management	Manufacturer–Foreign distributor n=142 US exporters	Formal contract precision Trust x formal contract	Distributor opportunism (0) Distributor opportunism (0)
Griffith et al. (2014)	Governance value analysis	Exporter–Foreign buyer n=151 US exporters	Adaptation of detailed contracting	New product outcome (+) Jointly created value (-)
Griffith and Zhao (2015)	Contracting, institutional and inter-organizational marketing literature	International Buyer–Supplier n=151 US exporters	Contract specificity x business risk x globalization Contract violation x contract monitoring	Contract violation (0) Contract violation (↑) Contract violation (↓) Relationship performance (-) Relationship performance (↑)
Skarmeas, Zeriti, Argouslidis (2019)	Relational view of the firm, dynamic capabilities theory, relational contracting	Importer–Supplier n=211 UK importers	Contractual governance	Relationship value (0)
Wu et al. (2007)	Resource-based view	Manufacturer–Foreign distributor n=142 US exporters	Formal contract Trust > formal contract*	Manufacturer market competence (+); Distributor opportunism (0) Manufacturer market competence (+); Distributor opportunism (0)
Yang, Su, and Fam (2012)	Transaction-cost economics, institutional perspective	Manufacturer–Foreign distributor n=205 Chinese exporters	Contract customization x relational governance	Channel performance (0) Channel performance (+)

Notes: (-/0/+) = negative/insignificant/positive direct effect, (↓/↑) main effect is mitigated/strengthened by moderator; moderators are indented below the investigated main effect.
* Standardized path coefficients were compared in their effect sizes on reported outcomes.

2.5.2 Research on Monitoring Mechanisms

2.5.2.1 Consequences of Output Control

Past research on the effects of output control has revealed ambiguous effects on the distributor's behavior and economic performance. The outcomes that have been investigated include the economic performance of the foreign partner (Aulakh and Gençtürk 2000), the performance of the partnership or the export channel (Aulakh, Kotabe, and Sahay 1996; Bello and Gilliland 1997), and export performance on a more aggregate level (Ju and Gao 2017; Ramon-Jeronimo, Florez-Lopez, Araujo-Pinzon 2019; Solberg 2006b). Other studies have focused on behavioral outcomes such as trust (Aulakh, Kotabe, and Sahay 1996), agent compliance (Aulakh and Gençtürk 2000), relationship quality (Solberg 2006a), and distributor opportunism (Ju et al. 2011).

A closer examination of the impact of output control on economic performance reveals inconsistent results. Aulakh, Kotabe, and Sahay (1996) reported that output control has a significant negative effect on partnership performance. They explained this negative effect by stating that the risk of underperformance is transferred to the partner. This transfer may then lead the partner to pursue immediate payoffs rather than to work toward the long-term goals of the partnership (Aulakh, Kotabe, and Sahay 1996).

In a subsequent study, Aulakh and Gençtürk (2000) investigated the effects of output control while differentiating between internal and external exchanges. Once more, they discovered that output control has a negative impact on the perceived economic performance of the distributor that is stronger for external than in internal exchanges. The authors suggested that output controls may retard market cultivation by causing inefficiencies in information flows and partnership coordination.

Bello and Gilliland (1997), in one of the most cited studies in the distributor governance literature, arrived at the opposite conclusion. They found that output control has a significant positive effect on performance. The authors argued that the use of output control has a motivating function (Anderson and Oliver 1987), that it reduces conflicts of interests (Eisenhardt 1989), and, thus, that it has a positive effect on export channel performance. A recent study by Stadlmann and Štrach (2020) supports this view and suggests that the effect in question is positive.

Similarly, the results that Solberg (2006b) reported support the proposition that output control has a positive effect on performance. The interaction of different control modes and the level of integration of the partner firm were also investigated. The results indicate that the effect of output control on performance decreases as integration becomes more intensive. Furthermore, they investigated the use of controls at different relationship stages. The findings show that outcome control becomes less effective as the relationship progresses (Solberg 2006b). However, a more recent study indicates that output control has a positive influence on export performance in both the short and the long run (Ju and Gao 2017).

Turning to behavioral performance outcomes, output control has been reported to exert no significant effect on trust (Aulakh, Kotabe, and Sahay 1996), distributor opportunism (Ju et al. 2011), and relationship quality (Solberg 2006a). However, Aulakh and Gençtürk (2000) showed that output control can harm agent compliance, supporting the view that autonomous partners can respond negatively when principal firms employ formal control measures to manage distributors (Aulakh and Gençtürk 2000).

2.5.2.2 Consequences of Process Control

Most research on control in exporter–distributor relationships does not indicate that process control measures have significant implications for economic performance (Aulakh, Gençtürk 2000, 2007; Aulakh, Kotabe, and Sahay 1996; Bello and Gilliland 1997; Solberg 2006b). The results are at least partially explained by the fact that the principals who manage cross-border relationships lack a profound understanding of the foreign market and are therefore unable to identify measures that can improve performance (Aulakh and Gençtürk 2000; Bello and Gilliland 1997). Furthermore, a study by Ju and Gao (2017) suggests that process controls can even have a negative effect even when the relationship between the parties is transient.

Studies on behavioral performance outcomes have yielded conflicting results. While some studies report that process controls have a positive effect on agent compliance (Aulakh and Gençtürk 2000), trust (Dong, Tse, and Cavusgil 2008; Storey and Kocabasoglu-Hillmer 2013) and relationship commitment (Storey, Kocabasoglu-Hillmer 2013), others show that process monitoring fosters opportunism (Ju et al. 2011) and harms relationship quality (Solberg 2006a, Zhou, Sheng, and Zhang 2021). This supports the view that partners react negatively when the exporter monitors activities in the foreign market (Solberg 2000; Solberg and Nes 2002; Solberg 2006a). Investigating moderating factors from the perspective of the distributor, Dong, Tse, and Cavusgil (2008) demonstrated that risk preferences and the long-term orientation of the distributor influence the effect of monitoring activities on trust and conflict. The findings show that if the distributor has a stronger appetite for risk, the positive influence of monitoring on the relationship between the two parties is limited. Conversely, the long-term orientation of the distributor nurtures healthy business relationships (Dong, Tse, and Cavusgil 2008).

2.5.2.3 Consequences of Social Control

Research on the consequences of informal control measures indicates that they have a positive effect on behavioral outcomes (e. g., Aulakh, Kotabe, and Sahay 1996; Solberg 2006a) and economic performance (e. g., Aulakh and Gençtürk 2000; Aulakh, Kotabe, and Sahay 1996; Ramon-Jeronimo, Florez-Lopez, Araujo-Pinzon 2019). Writing on the comparison between company-internal exchange structures, Aulakh and Gençtürk (2000) suggested that the valence of the effect in external exchanges is the same but slightly attenuated. The results of Solberg (2006b) support this view. They discovered that the moderating effect of the level of integration of the foreign partner on the positive relationship between social control and performance is positive. Furthermore, their findings demonstrate that social control is at its most effective in mature or stagnant partnerships. The findings of the studies on output control, process control, and social control are outlined in Table 6.

Table 6 – Consequences of Monitoring Mechanisms

Study	Theoretical Rationale	Relationship Structure/ Sample	Monitoring Measures	Consequences of Monitoring Measures
Aulakh and Gençtürk (2000)	Microeconomic models of governance structure, behavioral research	International principal-agent relationships n=205 US exporters	Output control Process control Social control	Agent compliance (-); Agent economic performance (-) Agent compliance (+); Agent economic performance (0) Agent compliance (0); Agent economic performance (+)
Aulakh, Kotabe, and Sahay (1996)	Organizational theory, social identity theory	Exporter–Foreign partner n=257 US exporters	Output control Process control Social control	Trust (0); Partnership performance (-) Trust (0); Partnership performance (0) Trust (+); Partnership performance (+)
Bello and Gilliland (1997)	Control theory	Exporter–Foreign distributor n=161 US exporters	Output control Process control	Export channel performance (+) Export channel performance (+)
Dong, Tse, and Cavusgil (2008)	Hierarchical governance approach, relational governance paradigm	Exporter–Distributor n=131 Chinese distributors	Manufacturer's monitoring [b] x Distributor's risk preference x Distributor's long-term orientation	Distributor's trust (+); Conflict (0) Distributor's trust (↓); Conflict (↑) Distributor's trust (↑); Conflict (↓)
Gençtürk and Aulakh (2007)	Transaction cost economics, contract law, social exchange perspectives	Manufacturer–Distributor n=129 US exporters	Vertical control [a]	Market performance of distributor (0); Satisfaction with distributor (+)
Holtgrave and Onay (2017)	Literature on the structuring of foreign market entry and international cooperation; innovation model, Uppsala model	Exporter–non-equity entry vs. cooperative entry vs. wholly owned subsidiaries n=280 German exporters	Control [c]	Foreign market performance (non-equity (0); cooperative (-); subsidiary (-))
Ju et al. (2011)	Transaction cost economics, relational contracting theory	Exporter–Distributor n=160 Chinese exporters	Output control Process control	Distributor opportunism (0) Distributor opportunism (+)
Ju and Gao (2017)	Transaction cost economics	Exporter–Distributor n=217 Chinese exporters	Output control Process control	Export performance (short-term +; long-term +) Export performance (short-term -; long-term 0)

Ramon-Jeronimo, Florez-Lopez, and Araujo-Pinzon (2019)	Resource-based view	Exporter–Foreign intermediary n=85 Spanish exporters	Output control Behavior control Social control	Export performance (0) Export performance (0) Export performance (+)
Solberg (2006a)	Agency theory	Exporter–Foreign middleman n=178 Norwegian exporters	Outcome control Process control Clan control	Relationship quality (0) Relationship quality (-) Relationship quality (+)
Solberg (2006b)	Agency theory	Exporter–Foreign middleman n=178 Norwegian exporters	Outcome control x Level of integration x Early relationship stage Process control x Level of integration x Intermediary relationship stage Clan control x Level of integration x Mature relationship stage	 Performance (↓) Performance (↑) Performance (0) Performance (0) Performance (↑) Performance (↑)
Stadlmann and Štrach (2020)	Economic theories of control, organization theory, cognitive psychology	Manufacturer–Distributor n=120 Austrian manufacturers	Outcome-/ behavior-based control (of management team)	Social Satisfaction (0) Performance (+)
Storey and Kocabasoglu-Hillmer (2013)	Governance theory, theory of adaptive governance	Supplier–International partner n=192 Partner	Certification control [d] Service support [e]	Trust (+); Customer satisfaction (+); Relationship commitment (+) Trust (+); Customer satisfaction (+); Relationship commitment (+)
Zhou, Sheng, and Zhang (2021)	Agency theory	Manufacturer–Distributor n=211 Chinese distributors	Manufacturer monitoring [f]	Distributor whistleblowing (-) Relationship quality (-)

Note: (-/0/+) = negative/insignificant/positive direct effect, (↓/↑) main effect is mitigated/strengthened by moderator; moderators are indented below the investigated main effect.
[a] Measured as “distributor’s influence on distribution, advertising, promotion, and pricing decisions” (Aulakh and Gençtürk 2007, p. 112) and thus classified as process control.
[b] Measured with three items capturing the process monitoring activities of the exporting firm, and thus classified as process control.
[c] Measured with three items capturing formal and informal controls exerted by the exporting firm.
[d] Defined as a formal governance mechanism directed towards partner’s behavior, and thus classified as process control.
[e] Considered as process control per definition.
[f] Comprises a mix of items attributable to output and process control.

2.5.3 Research on Relational Governance

Research on the consequences of relational governance has yielded more consistent findings. Relational governance enhances export performance (e.g., Aulakh, Kotabe, and Sahay 1996; Bello and Gilliland 1997; Yang, Su, and Fam 2012) and increases the likelihood of other favorable outcomes, such as gains in relationship value (Skarmeas, Zeriti, and Argouslidis 2019; Skarmeas, Zeriti, and Blatas 2016) and exporter competitiveness abroad (Zhang, Cavusgil, and Roath 2003). While some studies investigate relational norms as a second-order construct (e.g., Bello, Chelariu, and Zhang 2003; Skarmeas, Zeriti, and Baltas 2016; Zhang, Cavusgil, and Roath 2003), others incorporate them into a single construct (e.g., Navarro-García, Sánchez-Franco, and Rey-Moreno 2016; Skarmeas and Katsikeas 2001) or examine them separately (e.g., Aulakh, Kotabe, and Sahay 1996; Bello and Gilliland 1997; Ju et al. 2011).

Analyses show that relational norms not only influence tangible outcomes, such as performance indicators, but also produce intangible relational assets, such as trust, which affect export performance in a positive direction (Zhang, Cavusgil, and Roath 2003). Therefore, researchers have suggested that the competitiveness of the exporter in the foreign market is influenced "through the mutual trust-building process" (Zhang, Cavusgil, and Roath 2003, p. 562). Skarmeas and Katsikeas (2001) supported this notion in their investigation of the influence of relationalism, which reflected the perspective of importers. They found a positive relationship between import performance, relationalism, and trust. Ju, Zhao, and Wang (2014) explored the effects of relational governance on export performance by reference to the moderating forces of industry uncertainty and institutional distance. Their findings reveal that relational governance becomes less effective when industry uncertainty is high and more effective when institutional distance increases (Ju, Zhao, and Wang 2014). Ju and Gao (2017) investigated the impact of relational governance on short- and long-term export performance and found it to be significantly more positive in the long run. The authors argued that, despite the positive effect of relational governance, the cooperating organizations remain separate entities and might have different perspectives on relational norms, especially in the short run (Cao and Lumineau 2015). Establishing relational governance takes time, which might explain its significantly higher effectiveness in long-term relationships (Jap and Ganesan 2000; Ju and Gao 2017).

Despite the positive image of relational governance mechanisms, several studies have cast doubt on the proposition that their positive effects remain constant when the mechanisms in question are implemented in isolation (Azoula, Repenning, and Zuckerman 2010; Ju, Zhao, and Wang 2014). Relationships that are governed exclusively by relational norms might not be monitored efficiently, and the need for restructuring might go unnoticed (Ernst and Bamford 2005). Inspired by this reasoning, Ju, Zhao, and Wang (2014) wrote of an inverted U-shaped relationship between relational governance and export performance. Moreover, recent studies have emphasized the joint effects of relational governance and other governance mechanisms. The findings demonstrate that relational governance strengthens the positive impact of output monitoring on export performance (Ju and Gao 2017). Researchers have even suggested that relational governance compensates for the negative impact of process control on export performance because the mutual understanding and the cooperative interactions between the partners intensify (Anderson and Oliver 1987; Katsikeas, Skarmeas, and Bello 2009; Ju and Gao 2017). Furthermore, the combination of contractual and relational governance can precipitate improvements in performance through the development of legitimacy as well as efficiency in the foreign market (Yang, Su, and Fam 2012). An overview of the studies that investigate relational governance in the exporter–distributor context is displayed in Table 7.

Table 7 – Consequences of Relational Governance

Study	Theoretical Rationale	Relationship Structure/ Sample	Relational Governance Measures	Consequences of Relational Governance
Aulakh, Kotabe, and Sahay (1996)	Organizational theory, social identity theory	Exporter–Foreign partner n=257 US exporters	Continuity expectations Flexibility Information exchange	Trust (+); Partnership performance (+) Trust (+); Partnership performance (+) Trust (+); Partnership performance (0)
Bello, Chelariu, and Zhang (2003)	Governance theory	Exporter–Distributor n=290 US exporters	Relationalism (SOC)	Exporter's economic goals (+)
Bello and Gilliland (1997)	Relational exchange theory, relational contract theory	Exporter–Distributor n=161 US exporters	Flexibility	Export Channel Performance (+)
Griffith et al. (2014)	Governance value analysis	Exporter–Distributor n=151 US exporters	Adaptation of relational behavior	New product outcome (0); Jointly created value (0)
Ju and Gao (2017)	Relational exchange theory, transaction cost economics	Exporter–Distributor n=217 Chinese exporters	Relational governance (SOC) Output control x Relational governance Process control x Relational governance	Export Performance (short-term 0; long-term +) Export Performance (short-term 0; long-term ↑) Export Performance (short-term 0; long-term ↑)
Ju et al. (2011)	Transaction cost economics, relational contracting theory	Exporter–Distributor n=160 Chinese exporters	Norm-based information exchange x Output control x Process control	Distributor opportunism (-) Distributor opportunism (0) Distributor opportunism (↓)
Ju, Zhao, and Wang (2014)	Resource-, industry and institution-based view	Exporter–Distributor n=184 Chinese exporters	Relational governance (SOC) x industry uncertainty x institutional distance	Export performance (∩) Export Performance (↓) Export Performance (↑)
Navarro-García, Sánchez-Franco, and Rey-Moreno (2016)	Relational paradigm, channel theory, contingency approach	Exporter–Foreign distributor n=212 Spanish exporters	Relational norms (SOC)	Export Performance (+)

Obadia, Vida, and Pla-Barber (2017)	Relational exchange theory	Exporter–Foreign distributor n=105 French exporters	Continuity expectations	Importer Opportunism (-); Importer Role Performance (+)
			x Exporter dependence	Importer Opportunism (↑)
			x Psychic distance	Importer Opportunism (↓)
			x Foreign market competitive intensity	Importer Opportunism (↓)
			Equity	Importer Opportunism (-); Importer Role Performance (+) [a]
			x Exporter dependence	Importer Opportunism (↑)
			x Psychic distance	Importer Opportunism (↓)
			x Foreign market competitive intensity	Importer Opportunism (↓)
			Cooperation	Importer Opportunism (-); Importer Role Performance (+)*
			x Exporter dependence	Importer Opportunism (↑)
			x Psychic distance	Importer Opportunism (↓)
			x Foreign market competitive intensity	Importer Opportunism (↓)
Skarmeas and Katsikeas (2001)	Relational exchange theory	Cross-cultural Supplier–Reseller n=292 UK importers	Relationalism	Import Performance (+)
Skarmeas, Zeriti, and Argouslidis (2019)	Relational view of the firm, dynamic capabilities theory, relational contracting	Importer–Supplier n=211 UK importers	Relational governance	Relationship value (+)
Skarmeas, Zeriti, and Baltas (2016)	Relational view of competitive advantage	Importer–Exporter n=271 UK importers	Relational norms (SOC)	Relationship value (+)
Stadlmann and Štrach (2020)	Social identity theory	Manufacturer–Distributor n=120 Austrian manufacturers	Normative control (of salesforce)	Social satisfaction (+)
			Interpersonal socialization (of salesforce)	Performance (+)
			Normative control (of management)	Social satisfaction (+)
			Interpersonal socialization (of management)	Performance (+)
Yang, Su, and Fam (2012)	Transaction cost economics, institutional perspective	Manufacturer–Foreign distributor n=205 Chinese exporters	Relational governance (SOC)	Channel performance (+)
			Contract customization	
			x Relational governance	Channel performance (↑)
Zhang, Cavusgil, and Roath (2003)	Transaction cost economics, resource dependency theory, relational exchange theory	Manufacturer–Foreign distributor n=142 US exporters	Relational norms (SOC)	Trust (+)
			Relational norms (SOC)	Manufacturer's competitiveness in export market (+)

Note: (-/0/+) = negative/insignificant/positive direct effect, (↓/↑) main effect is mitigated/strengthened by moderator; moderators are indented below the investigated main effect.
* Significantly positive at p<.10.

2.5.4 Research on Incentive Mechanisms

In one of the first studies in the export literature that focused on the motivation of intermediaries, Shipley (1984) investigated a sample of US and UK manufacturers that were engaged in exporting through intermediaries. The descriptive findings reveal that distributors are motivated by attractive financial rewards, by effective two-way communication, by support for sales management, and by the expectation of long-lasting business relationships (Shipley 1984).

Scholars have demonstrated that incentive systems do not always lead to the expected distributor behavior (Gilliland and Kim 2014). An incentive problem arises when the distributor does not react to incentives in the manner that the exporter expects (Gilliland and Kim 2014; Ryan and Deci 2000). Instead of achieving superior performance, the distributor begins to exhibit lower levels of compliance, effort, and intrinsic motivation (e. g. Benabou and Tirole 2003; Ryan and Deci 2000). Since multitasking is a pervasive feature of the work environment of the distributor, ineffective incentives are often attributable to a misalignment between the incentivized tasks and the supplemental activities that the principal expects the distributor to complete (Kerr 1975; Gilliland and Kim 2014).

Dong, Tse, and Hung (2010) examined the misalignment between various governance strategies and the role orientation of the distributor. Governance strategies and role orientations were considered from an economic perspective and from a normative perspective. The results support the proposition that misaligned governance strategies cause performance to deteriorate. According to the authors, effectiveness is enhanced if the governance strategy that is applied fits the role orientation of the distributor. The findings also suggest that both types of governance strategies have positive effects in relatively recent relationships and that no interaction between governance mechanisms and role orientation can be established. Contrary, in mature relationships, the role orientation of the distributor needs to be examined by reference to the fit between governance strategies. Furthermore, role orientation strongly enhances satisfaction with a channel and its performance, while misalignment can have negative consequences (Dong, Tse, and Hung 2010). The findings also demonstrate that if the distributor perceives a loss of autonomy and control, it may resist incentives (Gilliland, Bello, and Gundlach 2010).

Obadia and Stöttinger (2014) investigated the effects of rebates, forms of credit, exchange rates, new products, and superior margins on importer role performance. The results suggest that only superior margins have a performance-enhancing effect; the other effects are insignificant. In addition, the findings of the dyadic analysis suggest that superior margins incentivize the distributor to prioritize the product line of the exporter. Moreover, the role performance of the distributor mediates the effect of superior margins on the economic performance of the exporter. This finding highlights the general proposition that the distributor must acknowledge the incentives as such to respond to them favorably (Obadia and Stöttinger 2014).

Obadia, Bello, and Gilliland (2015) analyzed the effects of high- and low-powered incentives on relationship quality, transaction-specific investments, and, finally, on role performance among distributors. The findings indicate that low-powered incentives are superior to high-powered incentives in promoting relationship quality and transaction-specific investments (Obadia, Bello, and Gilliland 2015; Palmatier, Dant, and Grewal 2007). Low-powered incentives can offset agency conflicts and transaction cost constraints as well as mitigate the negative influence that psychic distance exercises on the relationship (Obadia, Bello, and Gilliland 2015). Furthermore, the authors found that exporter oversight acts as a negative moderator on the positive effect of low-powered incentives on relationship quality and transaction-specific investments. This implies that governance through incentive systems and monitoring activities affects the motivation of the distributor to act in the interests of the exporter (Obadia, Bello, and Gilliland 2015). Finally, a recent study by Zhou, Sheng and Zhang

(2021) shed light on the manner in which incentives can stimulate whistleblowing against other distributors' wrongdoings to the manufacturer, which is liable to improve the quality of the exporter–distributor relationship. Table 8 overviews the studies on incentive mechanisms in the exporter–distributor setting.

Table 8 – Consequences of Incentive Mechanisms

Author (Year)	Theoretical Rationale	Relationship Structure / Sample	Motivational Measures	Consequences of Motivational Measures
Dong, Tse, and Hung (2010)	Role theory, transaction cost economics, social exchange theory	Manufacturer–Distributor	Economic governance (incentive)	Channel performance (build-up (+); mature (+))
		n=188 Chinese distributors	Normative governance (socialization)	Channel performance (build-up (+); mature (+) [a])
Gilliland, Bello, and Gundlach (2010)	Channel theory, social control theory, governance theory	Manufacturer–Distributor	Unilateral incentives	Coordination (0); Conflict (+)
		n=314 US manufacturers	x Supplier relative dependence	Coordination (0); Conflict (↑)
			Bilateral incentives	Coordination (+); Conflict (0)
			x Supplier relative dependence	Coordination (↓); Conflict (↑)
Obadia, Bello, and Gilliland (2015)	Agency theory, motivation theory	Exporter–Distributor	LPI	Relationship quality (+); Foreign distributor specific investments (+)
		n=278 European exporters	x Exporter oversight	Relationship quality (0); Foreign distributor specific investments (↓)
			Foreign distributor specific investments	Export Performance (+)
Obadia and Stöttinger (2014)	Agency theory	Exporter–Distributor	Volume discounts	Importer role performance (0); Exporter economic performance (0)
		n=283 French exporters	Credit	Importer role performance (0); Exporter economic performance (0)
			Exchange rate	Importer role performance (0); Exporter economic performance (0)
			New products	Importer role performance (0); Exporter economic performance (0)
			Superior margins	Importer role performance (+); Exporter economic performance (0)
			Importer role performance	Exporter economic performance (+)
Zhou, Sheng, and Zhang (2021)	Agency theory	Manufacturer–Distributor	Manufacturer Incentives	Distributor whistleblowing (+)
		n=211 Chinese distributors		Relationship quality (+)

Note: (-/0/+) = negative/insignificant/positive direct effect, (↓/↑) main effect is mitigated/strengthened by moderator; moderators are indented below the investigated main effect.
[a] Significantly positive at p<.10.
[b] Authors define the construct as extrinsic incentives.

2.6 Conclusion and Synthesis

2.6.1 Conclusion

Over the past two decades, research has increasingly focused on governance strategies in the context of international partnerships between exporting firms and wholly autonomous distributors. Governance strategies are highly relevant to business practice, and the performance improvements and changes in the behavior of foreign partners that governance mechanisms induce are pertinent to internationalization and long-term success in business. The objective of the literature review was to overview the current state of knowledge about the impact of various governance mechanisms on performance and relationship outcomes. All of the reviewed articles thus concern international partnerships between exporters and distributors.

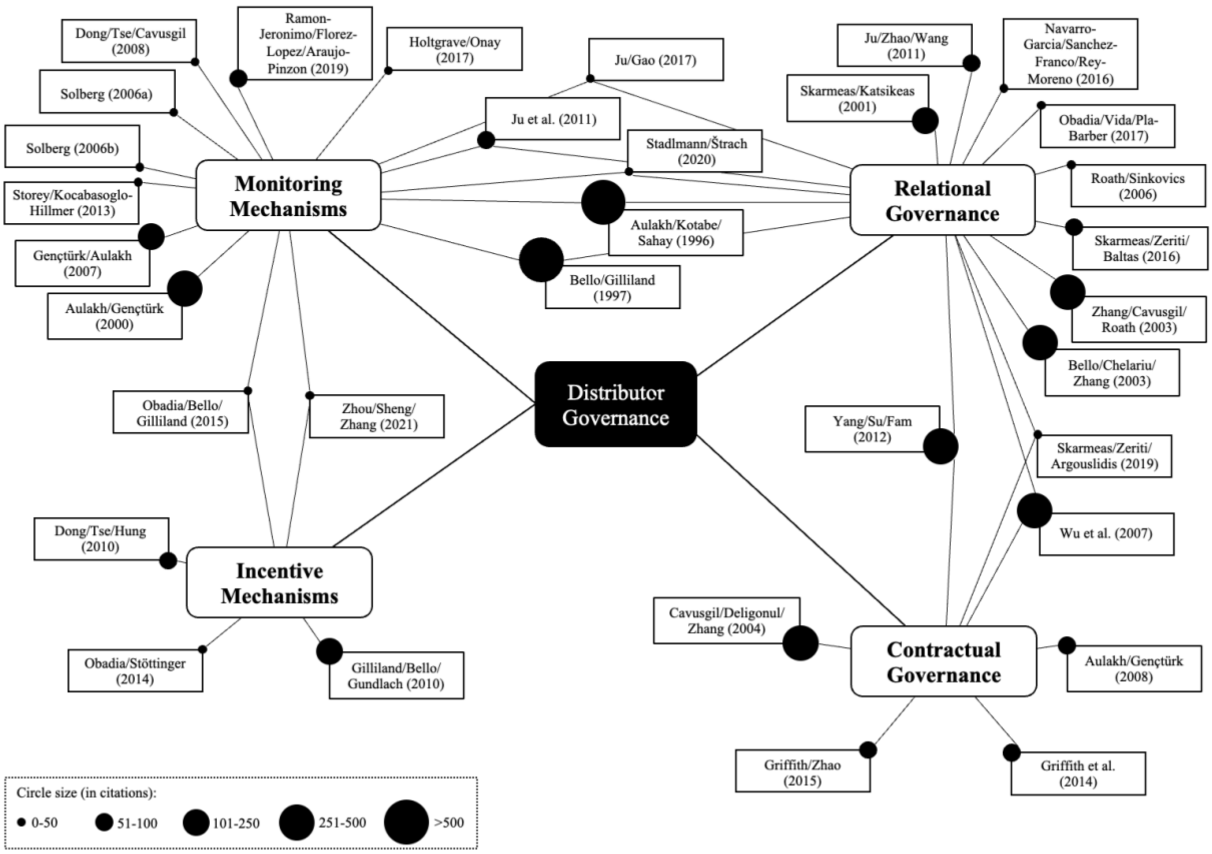
Numerous studies were classified into four broadly defined research domains that reflect the governance strategies under examination. The four research areas are **contractual governance**, **monitoring mechanisms**, **relational governance**, and **incentive mechanisms**. Figure 2 depicts the contributions within the four categories. The size of a circle indicates the impact of the corresponding study as measured by number of citations (citation data was obtained from Google Scholar). In this way, the key studies from the research domains are highlighted.[1] Research on governance mechanisms for the management of autonomous distributors in an international context is still developing, and the field is increasingly benefitting from scholarly attention.

As far as **contractual governance** is concerned, the impact of customization and the specific design of contracts on performance is insignificant or even negative. Leading scholars have argued that the effort that must be expended to tailor contracts to particular situations is disproportionate to the benefits of the practice. The initial findings suggest that the structure of

[1] Naturally, earlier publications tend to have a larger number of citations. Nevertheless, the figure indicates which studies are most influential in each research domain.

the contract should depend on circumstances in the target country (Yang, Su, and Fam 2012). The more globalized and economically and legally secure the target country, the more worthwhile it is to invest in detailed and individualized contracts (Aulakh and Gençtürk 2008; Griffith and Zhao 2015). Contractual governance focuses primarily on the effects of establishing formal structures by using contracts and formal agreements to coordinate the partnership and to curb opportunism. Thus, the purpose of contracts is to define roles, tasks, and obligations clearly and to reduce opportunism on the part of distributors. However, it has not yet been proven that contracts can cure opportunism in exporter–distributor partnerships. Research on the question of whether contractual and relational governance are complementary has produced mixed results.

Figure 2 – Research Contributions to the Distributor Governance Research Field



Notes: Circle sizes indicate the number of recitations obtained from Google Scholar data.
Since the focus is on the outcomes of governance mechanisms, only empirical studies are included in the figure.

The review of the literature on monitoring mechanisms and relational governance revealed that Bello and Gilliland (1997) and Aulakh, Kotabe, and Sahay (1996) set the foundation for subsequent studies of distributor governance. Those studies were among the first to focus exclusively on export channel relationships with formally independent partners, and their authors applied insights from control research to this specific context. In the following years, research on monitoring mechanisms and relational governance attracted considerable attention. Numerous contributions have evaluated their impact on various performance measures as well as on the ability of the exporter to influence distributor behavior.

Monitoring mechanisms are used by the exporter to observe the behavior and the performance of the distributor. The results on the impact of output control, which has to do with measuring the quantifiable aspects of the performance of the distributor, are mixed. Negative effects are explained by the focus of the distributor on immediate payoffs and the lack of a long-term perspective (Aulakh, Kotabe, and Sahay 1996). Positive effects, conversely, suggest that output control can have a motivating function and mitigate conflicts of interest in principal-agent relationships (Bello and Gilliland 1997). The findings suggest that output control is more likely to cause hostile distributor behavior (Aulakh and Gençtürk 2000). According to most studies, process control has no significant influence on export performance. Researchers have argued that the exporter's limited understanding of the specificities of foreign countries and markets makes process control ineffective (Aulakh and Gençtürk 2000; Bello and Gilliland 1997). Previous research has linked process control to disruptive behavior. However, there is evidence that the attitude of the distributor toward the partnership determines its perception of process control measures (Dong, Tse, and Hung 2010). According to the literature, social control has a positive effect on both performance and distributor behavior.

The effects of **relational governance** are generally positive. Studies highlight its motivating and relationship-promoting effect, especially in the long term (Ju and Gao 2017). In addition, initial studies suggest that relational governance enhances the impact of output and process control on performance (Ju and Gao 2017). Furthermore, relational governance seems to be a suitable means of preventing opportunistic behavior (Ju et al. 2011; Obadia, Vida, and Pla-Barber 2017).

Incentive mechanisms are the least investigated governance mechanism in the export literature. That literature addresses the performance implications of different extrinsic and intrinsic incentives that exporters can offer when they partner with autonomous distributors. Those incentives alter the internal motivational context of the distributor. They are particularly relevant when the exporter competes with other suppliers for the time and the attention of the distributor. To date, few studies have examined the effects of different incentive mechanisms empirically. The extant literature highlights the positive effect of intrinsic incentives that drive the pursuit of long-term partnership goals. However, extrinsic incentives can have beneficial effects as well. At present, the academic understanding of the interaction between incentive mechanisms and other governance measures is extremely limited.

2.6.2 Research Gaps and Avenues for Future Research

The effects of **contractual governance** on distributor performance and behavior should be investigated further in order to isolate various moderating forces, which may include environmental (e.g., economic and legal) and relationship-specific (e.g., long-term orientation and dependence or power structures) stressors. This may clarify the ambiguous findings on the effects of contract characteristics on relationship and performance outcomes. Furthermore, it might be interesting to inquire whether contractual governance merely encourages compliant behavior on the part of the distributor or whether it can also be a useful means of mobilizing active support for the exporter’s agenda. Answering this question may allow researchers to draw more specific conclusions on the operating mechanisms of contracts. In addition, future research should emphasize the impact of contractual governance on distributor opportunism—curbing opportunism is widely thought to be among the main purposes of contractual governance (Poppo and Zenger 2002; Zhou, Poppo, and Yang 2008). Since the initial results do not indicate that there is a direct relationship between contract implementation and distributor opportunism (Cavusgil, Deligonul, and Zhang 2004), it may be useful to examine potential moderators (e. g. distance, behavior in the distributor network, and relationship characteristics). Few studies have examined the interaction between the use of contracts and relational factors such as trust. Furthermore, the interplay between contracting and the simultaneous application of monitoring and incentive-based mechanisms might provide further insights into the effective implementation of contractual governance.

Turning to **monitoring mechanisms**, the effects of output and process control on performance and relationship outcomes are ambiguous, while social control measures are largely associated with positive outcomes. As unilateral control mechanisms, output control and process control imply the existence of a hierarchical structure. Therefore, it may be desirable to explore additional moderators that highlight the structural aspects of the partnership (e.g., the degree of integration and interdependencies) in order to bolster limited existing findings (e.g., Dong, Tse, and Cavusgil 2008) and to gain deeper insights into the operation of the underlying mechanisms. Initial studies indicate that there are differences in the effectiveness of control measures that depend on the stage of the partnership at which they are applied (e.g., Ju and Gao 2017). Given that the consequences of output and process control are still unclear, it may be helpful to study their effects on young and mature partnerships, in line with Ju and Gao (2017). Further insights might be attained by investigating the partnership from the perspective of the distributor. How the distributor perceives the monitoring measures and what influence they exert on its perceived autonomy are both questions that should be of particular interest.

The findings show that **relational governance** is primarily associated with positive performance and behavior outcomes. Future studies could inquire whether relational governance also has negative implications and whether there are circumstances in which its positive effects are less pronounced. The approach of Ju, Zhao, and Wang (2014), which entails inquiring whether there is a curvilinear relationship between relational governance and export performance, could facilitate the identification of a threshold level of relational governance that should not be exceeded. In particular, export managers might be interested in discovering whether, despite its generally positive consequences, relational governance can become too much of a good thing. While past studies have examined the effects of monitoring mechanisms and relational governance, further studies should test for positive or negative interactions between these measures. This would allow more accurate advice to be provided to those who wish to improve their distributor management strategies.

The literature on the use of **incentive mechanisms** for the management of distributor relationships is becoming more voluminous, but this domain remains relatively understudied. Since existing research is limited, an exploratory approach to the topic holds much promise, and it may be desirable to identify problems from a practical point of view by using qualitative methods. In addition, the effectiveness of the use of extrinsic and intrinsic motivational measures, both in isolation and in tandem, should be examined and compared with that of other governance mechanisms. Furthermore, adopting a distributor-focused perspective in this domain may enable the motivations behind the actions of distributors and their perceptions of various incentives to be understood better. Investigating the way the incentive portfolio of the exporter affects the attitude of the distributor might also prove fruitful. The identification of mediating forces might shed light on the mechanisms that animate the operation of incentives. One approach would entail inquiring whether the provision of incentives raises switching costs for the distributor, which may therefore favor the exporter that offers the optimal incentives. As a further mediator, it could be investigated whether incentives mobilize the active support of distributors, which ultimately improves export performance. Finally, the interaction of incentives and other governance mechanisms would advance existing knowledge. Table 9 provides an overview of avenues for further research.

Table 9 – Roadmap for Further Research

Research Field	**Focus**	**Exemplary Research Questions**
Contractual Governance	Moderating forces	Do contractual arrangements affect performance differently at different stages of the partnership?
		Are they perceived differently by the distributor in early vs. mature partnerships?
		What external contexts determine the degree of formality with which a contract should be designed?
	Compliant behavior vs. active support	Does contractual governance merely encourage a distributor's compliant behavior, or can it stimulate active support on the part of the distributor?
	Curbing Opportunism	Is contractual governance a useful measure for curbing distributor opportunism?
		Are there circumstances (e. g. distance, distributor network behavior, relationship characteristics) that mitigate/enhance effects on opportunism?
	Interaction	Does contractual governance interfere with other governance mechanisms or is it complementary?
Monitoring Mechanisms	Mediating forces	Can ambiguous findings about the effects of monitoring mechanisms be explained via mediators?
	Moderating forces	Do monitoring mechanisms have differential effects in different phases of the partnership?
		Should the exporter’s focus on different monitoring alternatives shift throughout the partnership?
		How does the relationship structure (degree of integration, interdependencies) impact the effect of monitoring mechanisms.
	Distributor Perspective	Which monitoring mechanism is most prone to intrude the distributor’s perceived autonomy?
		What determines whether monitoring mechanisms are perceived supportive or intrusive by the distributor?
	Compliant behavior vs. active support	Do distributors see monitoring mechanisms as a contributing factor to increase relationship value?
Relational Governance	Moderating forces	Are there any circumstances that mitigate the predominantly positive effects of relational governance?
	Maximum level	Is there a performance maximizing value of relational governance?
		Can an exporter put too much effort into practicing relational governance?
	Interaction	How does relational governance interact with monitoring mechanisms?
Incentive Mechanisms	Mediating forces	Are exporters able to increase the switching costs for the distributor by providing incentives?
		Do incentives promote cooperative behavior and active support of the exporter’s agenda on the part of the distributor?
	Moderating forces	What circumstances influence the mix of the incentive portfolio and its success?
	Maximum level	Is there a performance maximizing level of incentivization?
	Incentive types	How do extrinsic and intrinsic incentives differ in their effect on performance?
		Does providing extrinsic incentives contribute to superficial task completion?
		What effect does the exporter's incentive portfolio have on the distributor's attitude toward the exporter?
	Distributor Perspective	How do distributors perceive different types of incentives?
		Which incentives stimulate short-term/long-term partnership orientation on the part of the distributor?
		Does an investigation from a dyadic/distributor perspective support findings from exporter perspective research?
	Interaction	Do monitoring mechanisms enhance or mitigate incentivizing mechanisms?
		Is there a perfect strategic mix of governance measures?

3 Essay II – How to Successfully Manage Collaborations with Independent Export Distributors – Empirical Insights from German Small- and Medium-Sized Enterprises

3.1 Abstract

In export businesses, small- and medium-sized firms (SMEs) rely on independent distributors that are located in their target market. Due to the distributor's autonomy, SMEs must establish various governance mechanisms not only to protect their export venture from the distributor's potentially counterproductive behavior but also to contribute to increased performance levels through efficient cooperation. According to a literature review, no current qualitative studies address the issue of how SMEs navigate cooperation with foreign distributors. To provide an updated perspective on the topic, this author utilizes an exploratory research approach, conducting 13 qualitative expert interviews with representatives of German SMEs. The purpose of this study is to broaden the knowledge regarding governance practices that are commonly utilized by SMEs to steer their international distributors; thus, this study contributes to distributor governance literature by investigating SMEs only. Additionally, this study contributes to existing research by developing a classification scheme that provides an overview of the control activities applied. After considering the results, the author provides detailed managerial advice and highlights future avenues of research.

Keywords: *distributor management, distributor monitoring, distributor motivation, best practice, export performance, autonomy, principal-agent problem*

Additional Notes:

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3.2 Introduction

By far, the greatest challenge is to keep motivation at the highest level, to keep sparking interest in our products [on the part of the distributor], so that, in the first place, our products are actively presented in the market.

(Interview Partner 7, paragraph 53)

During the exporting process, small- and medium-sized enterprises (SMEs) regularly employ distributors that manage overseas marketing activities and are responsible to circulate the exporter's offerings in the foreign market (Child, Rodrigues, and Frynas 2009; Obadia, Vida, and Pla-Barber 2017). One of the most prevalent challenges when exporting through distributors, which are defined as independent entities over whom the exporter does "not have formal legitimate authority in external exchanges" (Aulakh and Gençtürk 2000, p. 527), is the actual management of distributors' actions. Thus, navigating the partnership is complicated, because the distributors are autonomous (Aulakh and Gençtürk 2000). Distributors reduce exporters' uncertainties that arise from a lack of foreign business knowledge (Chen and Martin 2001), are closer to target customers, and provide powerful market connections (Chakrabarti et al. 2014). Hence, the importance of creating strong partnerships with international distributors has been highlighted by scholars as well as practitioners (e.g., Cavusgil, Zhang, and Roath 2003; Yang, Su, and Fam 2012).

Scholars and practitioners therefore advise exporting companies to establish governance mechanisms not only to inhibit counterproductive behavior on the distributor's part but also to contribute to increased performance levels through efficient cooperation (Aulakh and Gençtürk 2000; Madsen, Moen, and Hammervold 2012). Governance scholars have discussed several mechanisms that may counteract unfavorable behavior and enhance export performance, such as monitoring (Bello and Gilliland 1997; Ju and Gao 2017, Stadlmann and Štrach 2020), implementing relational mechanisms (Aulakh, Kotabe, and Sahay 1996; Yang, Su, and Fam

2012), employing incentives (Obadia, Bello, and Gilliland 2015; Zhou, Sheng, and Zhang 2021), and drafting formal contracts (Aulakh and Gençtürk 2008; Skarmeas, Argouslidis, and Zeriti 2019).

Distributors perform local marketing activities at a more beneficial quality-to-cost ratio than the exporting firm could hope to achieve (Cavusgil, Deligonul, and Zhang 2004; Sousa and Bradley 2009); therefore, SMEs frequently opt for indirect exportation via collaboration with independent distributors (Ramon-Jeronimo, Florez-Lopez, Araujo-Pinzon 2019). In previous governance research, larger exporting companies have predominantly been the subject of investigation, whereas studies regarding smaller companies are scarce (see, e.g., Cao et al. 2018). Obadia and Vida (2006) claim that in export business, it is necessary to distinguish between SMEs and larger companies because of their unique characteristics. Compared to larger firms, SMEs typically face significant resource constraints, are less diversified in international environments, are highly vulnerable to competition and external challenges, and are unique in their ownership structure (Bodlaj, Povše, and Vida 2017; Holtgrave and Onay 2017; Navarro-Garcia, Sanchez-Franco, and Ray-Moreno 2016; Obadia and Vida 2006). The management of international partnerships is also different, as SMEs are usually less formalized in their management approaches and governance procedures (Quinn 2011; Ramon-Jeronimo, Florez-Lopez, and Araujo-Pinzon 2019). Despite these peculiarities, just a limited number of studies have focused their investigations on SMEs in this context (see, e.g., Obadia, Vida, and Pla-Barber 2017; Ramon-Jeronimo, Florez-Lopez, and Araujo-Pinzon 2019).

Due to firm size being assumed to be a key factor in managing cross-border partnerships (Aldrich and Auster 1986; Holtgrave and Onay 2017; Maekelburger, Schwens, and Kabst 2012), this study investigates the status quo of beneficial practices for distributor governance by German SMEs. The purpose of this study is to broaden the knowledge regarding governance practices commonly utilized by SMEs to steer their international distributors; thus, this study contributes to distributor governance literature by investigating SMEs only. For the purpose of this study, SMEs are defined as companies with no more than 500 employees following Musarra, Robson, and Katsikeas (2016) and, according to suggestions from the German *Institut für Mittelstandsforschung*, are family-owned (IfM Bonn 2021). To provide a new perspective on the topic, this author utilizes an exploratory research approach, conducting 13 qualitative expert interviews with representatives of German SMEs. The interviews resulted in almost 16 hours of usable footage that offers valuable insights for future export research and practice. According to Paul, Parthasarathy, and Gupta (2017, p. 337), the "use of qualitative methods in international business is believed to be an area that holds much promise." The results of this study further contribute to existing research by inductively developing a classification scheme that provides an overview of the applied governance activities. Thus, the core research question is as follows:

How do SMEs support and steer distributors to strengthen cooperation and ensure high levels of market success?

In the remainder of this essay, the peculiarities of SMEs in the export business are discussed. Furthermore, previous export literature is reviewed to offer an empirical consideration of various governance mechanisms that occur in relationships between SME exporters and their distributors. Thus, the limited governance research regarding SMEs is specifically highlighted. Second, the knowledge revealed in previous studies is utilized as a basis for conducting qualitative, in-depth expert interviews with representatives of German SMEs. In a third step, a governance classification scheme is provided that summarizes the findings from the qualitative interviews. Furthermore, a conceptual model is developed, which features further quantitative research suggestions. Finally, the study closes with derived implications for future research and practice.

3.3 Conceptual Background and Literature Review

Governance mechanisms are "safeguards that firms put in place to regulate interfirm exchange, minimize exposure to opportunisms, protect transaction cost investment, and promote the continuance of relationships" (Burkert, Ivens and Shan 2012, p. 545; Jap and Ganesan 2000). They are intended to prevent opportunistic or other unfavorable behavior and thus support the best possible export performance (Joshi 2009, Ju et al. 2011). According to interorganizational business literature, multiple mechanisms, such as contractual, monitorial, relational, and incentive measures, have governing functions.

In contractual governance, mechanisms that seek to gain control by implementing written contracts provide a legal basis for any foreseeable matters within a partnership (Aulakh and Gençtürk 2008). Highly specific contracts are considered to be especially relevant in cross-border relationships in which norms may differ concerning, for example, the legal or political environment or common business practices (Cavusgil, Deligonul, and Zhang 2004). To the author's best knowledge, no extant articles investigate contractual governance in the SME context. Monitoring mechanisms are those activities that collect information about the distributor's behavior or performance without providing the SME any formal control (Bello and Gilliland 1997; Sachdev and Bello 2014). Conversely, relational mechanisms focus less on efficiency aspects of the partnership and more on social aspects. Through relational mechanisms, the distributor's effort to achieve common goals is supported by social norms and shared expectations of appropriate behavior (Dyer and Singh 1998). Finally, since the distributor usually represents more than one exporter in the foreign market (Gilliland 2003; Gilliland, Bello, and Gundlach 2010), incentives are utilized by exporters "to motivate active [distributor] support of the [exporter's] agenda" (Gilliland 2004, p. 88). Specifically, if an exporter requires demanding or time-consuming activities, then the distributor may need to be adequately motivated to perform these tasks to the exporter's satisfaction (Katsikeas, Skarmeas, and Bello 2009). This in turn leads the distributor to neglect those that offer less desirable incentive portfolios (Gilliland 2004). Figure 3 presents an overview of the four governance mechanisms and defines the managerial purpose of each.

Figure 3 – Managerial Purpose of Distributor Governance Mechanisms

Contractual Governance

- Building a legal basis for the partnership via the formulation of written-out contracts (Aulakh and Gençtürk 2008)
- Providing a basis for settling possible future conflicts and disputes (Homburg et al. 2009)
- Curbing opportunism (Poppo and Zenger 2002)
- Reducing uncertainty about future actions of the partner (Homburg et al. 2009)

Monitoring Mechanisms

- Collecting information about the actual performance and behavior of the distributor (Sachdev and Bello 2014)
- Keeping an overview of the distributor's service and representation in the foreign market (Gilliland, Bello, and Gundlach 2010)
- Compensating the lack of formal control (Bello and Gilliland 1997)
- Intending to reduce the distributor's opportunism (Joshi 2009)

Incentive Mechanisms

- Stimulating active support of the exporter's undertakings (Gilliland 2004)
- Encouraging the distributor to prioritize the marketing of the exporter's products over other alternatives in the distributor's product portfolio (Gilliland 2004; Katsikeas et al. 2009)

Relational Mechanisms

- Encouraging interpersonal socialization (Stadlmann and Štrach 2020)
- Supporting the work towards partnership goals (Heide and John 1992) by relying on social norms and shared expectations about appropriate behavior (Dyer and Singh 1998)
- Allowing to understand the partner's common social behaviors and business practices (Oliver 1996)

One of the earliest publications in the field of independent distribution channel governance is from Shipley, Cook, and Barnett (1989), who performed an exploratory study investigating how British SMEs manage their overseas distributors. In addition to distributor recruitment and evaluation tactics, the descriptive analysis of the data set allows one to obtain an overview of numerous distributor motivations and training activities. According to the analysis, the most frequently utilized motivational practices are territorial exclusivity, regular communication and information exchanges, and expressions of appreciation. The predominant training activities focus on the formation of product and company knowledge as well as feedback skills.

Over the past decade, the investigation of distributor governance mechanisms utilized by SMEs has gained attention. Scholars have investigated the influence of SME resources (e.g., technology orientation or experience) on management capabilities and, ultimately, on export performance (Ramon-Jeronimo, Florez-Lopez, and Araujo-Pinzon 2019; Sousa and Bradley 2009; Sousa and Novello 2014). Insights obtained from a quantitative study by Sousa and Bradley (2009) reveal a positive effect of the exporter's technology orientation and experience on its capability to provide distributor support and thus increased export performance. These findings highlight the importance of the export managers' technical experience for distributor support and overall collaboration, as this support is essential when products are technically complex (Sousa and Bradley 2009). The support provided to the distributor offers favorable performance implications for SMEs, which highlights the relevance of cooperation and the vital role of the distributor within the partnership (Sousa and Bradley 2009; Sousa and Novella 2014).

Other studies have examined the relational perspective and approaches to informal governance mechanisms in SMEs. Bodlaj, Povše, and Vida (2017) investigate the flexibility-trust mechanism and advise that SMEs should invest in long-term relationships that incorporate both partners as they adapt to each other and encounter environmental changes. Assessing survey data from 278 European exporters, Obadia, Vida, and Pla-Barber (2017) find a negative effect of several relational norms on the distributor's dysfunctional behavior. Thus, the authors endorse the shielding effect of such informal measures against opportunistic and other relationship-damaging behavior, especially with substantial physical distances and strong competitive intensity.

Holtgrave and Onay (2017) examine the effects of trust, control, and learning on foreign market performance in different market entry modes with a sample of 280 German SMEs. They do not find a significant performance effect from trust and control in non-equity market entries, although equity-based market entries experience this effect. The authors argue that the involvement in non-equity entry modes is significantly lower due to the reduced risk compared to equity-based entry modes and wholly owned subsidiaries (Holtgrave and Onay 2017).

Ramon-Jeronimo, Florez-Lopez, and Araujo-Pinzon (2019) explore management control systems utilizing quantitative survey data from 432 Spanish SMEs. They investigate the antecedents and economic performance outcomes of output, process, and social controls, ascribing a performance-catalyzing role to management control systems. Social control is found to be the key measure to increase performance, which promotes the vital role of informal mechanisms for SMEs that manage international distributors. Findings indicate that financial resources contribute to the establishment of social controls, while the level of physical resources determines the reliance on formal controls (Ramon-Jeronimo, Florez-Lopez, and Araujo-Pinzon 2019).

Being the least studied governance mechanism in the export literature, incentive mechanisms have limited empirical evidence to support their effects. A few studies have offered initial insights, based on quantitative approaches, into the workings of different incentive mechanisms (e.g., Dong, Tse, and Hung 2010; Gilliland, Bello, and Gundlach 2010; Obadia and Stöttinger 2014) when applied to exporter–distributor relationships. To the best of the author's knowledge, only Obadia, Bello, and Gilliland (2015) report that 80% of the surveyed exporters were categorized as SMEs. Thus, the findings that low-powered (informal) incentives (e.g., training or support) specifically foster relationship quality and the distributor's relationship-specific investments could be a primary indicator of how incentives work in the SME context.

In conclusion, most of the researchers have investigated the topic utilizing quantitative survey methods with and samples from exporting SMEs in the European region. According to this literature review, there are no current qualitative studies that address SME management of relationships with foreign distributors, except for the work by Shipley, Cook, and Barnett (1989). Their study from more than 30 years ago is assumed to be outdated due to mega-trends such as globalization and digitalization, which have significantly changed international collaborations and market cultivations. Hence, it seems reasonable to reexamine the topic under current circumstances. Corresponding studies are summarized in Table 10.

Table 10 – Literature Regarding Governance Mechanisms Utilized by Exporting SMEs

Study	Research Approach	Governance Practices Investigated	Key Findings
Bodlaj, Povše, and Vida (2017)	Quantitative survey, *n* = 175 Slovenian SMEs	Flexibility-trust mechanism	Flexibility positively affects trust both directly and indirectly by mitigating psychic distance; the flexibility-trust mechanism fosters satisfaction with the export venture, which in turn increases economic performance
Holtgrave and Onay (2017)	Quantitative survey, *n* = 280 German SMEs	Trust and control	No significant effect of trust and control on performance in non-equity export modes; effects are significantly positive for equity-based market entries
Obadia, Bello, and Gilliland (2015)	Quantitative survey, *n* = 278 European exporters [a]	High- and low-powered incentives	Low-powered incentives positively affect relationship quality and the distributor's relationship-specific investments
Obadia, Vida, and Pla-Barber (2017)	Quantitative survey, *n* = 125 French SMEs	Relational norms (continuity expectations, equity, and cooperation)	Relational norms have a shielding effect against opportunistic behavior; the shielding effect is reduced by the exporter's dependence and strengthened with increasing psychic distance and competition
Ramon-Jeronimo, Florez-Lopez, and Araujo-Pinzon (2019)	Quantitative survey, *n* = 432 Spanish SMEs	Management control systems (output, behavior, and social controls)	Perfromance-catalyzing role of management control systems; social control is a key measure to increase export performance; financial resources foster implementation of social controls; the more physical resources, the stronger the reliance on formal controls
Shipley, Cook, and Barnett (1989)	Qualitative interviews, *n* = 30 British SMEs [b]	Distributor motivation programs and distributor training	Among other measures, territorial exclusivity, providing organizational information, and regular personal contact are essential motivators
Sousa and Bradley (2009)	Quantitative survey, *n* = 287 Portuguese SMEs	Distributor support	Distributor support has a positive effect on export performance; distributor support fully mediates the relationship between technology intensity and export performance
Sousa and Novello (2014)	Quantitative survey, *n* = 154 Italian SMEs	Distributor support	Support provided to the distributor strongly increases export performance

[a] Obadia, Bello, and Gilliland (2015) report that 80% of the surveyed firms were categorized as SMEs.
[b] Information derived from the interviews is summarized and examined in descriptive statistics.

3.4 Method and Context

For the empirical study, in-depth, semistructured personal interviews were determined to be appropriate, as exploratory research is considered to be useful to find answers to why and how questions (Creswell 2013). Thus, the researcher conducted 13 exploratory expert interviews to determine how exporting SMEs govern independent distributors to ensure cooperation and export success. The interviews focused on governance mechanisms that SMEs applied when working with foreign distributors. Additionally, participants addressed how distributors are motivated to dedicate their time and effort to marketing the exporter's products, as this has been recognized as one of the major issues in distributor management (Gilliland 2003; Gilliland and Kim 2014; Morgan, Katsikeas, and Vorhies 2012). Insights from the literature regarding interorganizational governance were utilized to develop a semistructured interview guide for application in these problem-centered interviews. The four topics—contractual governance, monitoring mechanisms, incentive mechanisms, and relational aspects—were present only to provide an aggregate structure for the results and to subsequently allow the researcher to integrate the results into the existing literature.

Before the interview phase began, rules were established for the sample selection. The sample included German SMEs that are in the post-entry stage of the export venture, which means that they have already started exporting to another country and exporting activities are conducted via independent distributors in at least one target market. International demand for goods bearing the "Made in Germany" quality seal accelerated strongly in 2021: exports for the year increased by 14% to a record level, thus exceeding the pre-crisis year 2019 figure by 3.57% (Handelsblatt 2022; Statistisches Bundesamt 2022). Since SMEs are essential for the German economy—they account for approximately 97% of German exporters (Bundesverband mittelständische Wirtschaft e.V. 2022)—this setting seems adequate for conducting this study.

The final sample comprised 13 individuals who were managing directors, export managers, and sales managers who were (at the time of the interview) or had been responsible for managing distributors in specific geographic areas. The interviews were held from April 2020 until August 2020, either in person or via video call. The interviews lasted between 40 and 126 minutes; the average interview was 73 minutes (SD = 26.33). The interview phase ended when theoretical saturation was achieved (Strauss 1991), that is, when participant statements largely corresponded to those of other participants and the interviews no longer added valuable insights. Please see Table 11 for a more detailed description of the sample.

Table 11 – Overview of the Study Sample

Interview	Export Offerings	Position	Medium	Duration
IP1	Securing and lifting technology	Executive director	VC	1:39 h
IP2	Synthetic materials	Executive director	VC	1:02 h
IP3	Grinding, polishing, and cutting tools	Sales director	VC	0:51 h
IP4	Safety knives	Head of sales	VC	1:40 h
IP5	Saw blades	Executive director	VC	1:26 h
IP6	Polymeric materials	Global channel manager	VC	1:00 h
IP7	Grinding and polishing tools	Sales director	VC	1:27 h
IP8 + Follow-up*	Drilling, grinding, and sawing machines	Executive director	P, VC	2:06 h
IP9	Chemical and process technologies	Head of sales	VC	0:53 h
IP10 + Follow-up*	Consulting and concept development: trade of nonfood products	Executive director	VC	0:55 h
IP11	Electromechanical and fluid actuator systems	Sales and marketing director	VC	1:29 h
IP12	Locking technology	Head of sales	VC	0:40 h
IP13	Fuse technology	Sales director	VC	0:43 h

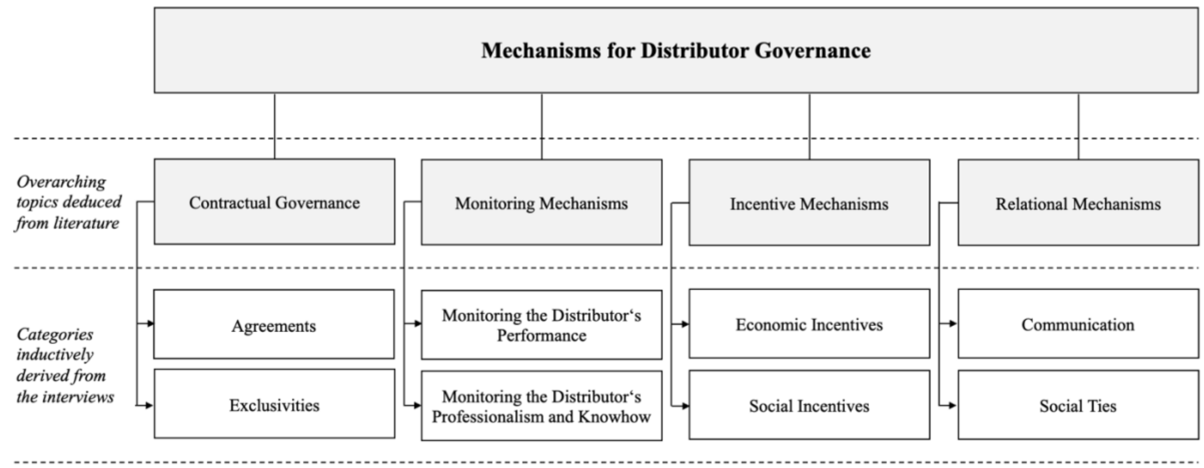
Notes: IP = interview partner; VC = interview via video conference; P = interview in person. The order of the interviews reflects the chronology in which they were conducted.
*Follow-up questions regarding content from the interviews were discussed in an additional meeting.

To ensure high-quality findings, every interview was recorded and transcribed. The three-step process suggested by Wolcott (1994) was utilized to analyze the data set. In the first step, iterative descriptive coding was utilized for qualitative content analysis. Next, the code system developed in the first step was employed to systematically identify themes and relationships in the data set. This resulted in eight inductively formed categories, which were subsequently assigned to the four governance mechanisms. In the final step, the results were interpreted by connecting them to existing literature (Wolcott 1994). For coding and analysis, the commercial software tool MAXQDA (2020.4.2) from VERBI Software GmbH was utilized.

3.5 Results

In the course of the interview analysis, eight categories were identified; these mirror different mechanisms that support exporter–distributor partnerships and ultimately affect the performance of the alliance (i.e., agreements, exclusivities, monitoring the distributor's performance, monitoring the distributor's professionalism and know-how, economic incentives, social incentives, communication, and social ties). Figure 4 provides an overview of the category system, which is discussed in the following sections.

Figure 4 – Category System



3.5.1 Contractual Governance

3.5.1.1 Agreements

The interviewees revealed that, in contrast to larger corporations, SMEs refrain from developing binding contracts. Interview Partner (IP) 1 explained that they "prefer not to enter into contracts. Typically, we have very loose verbal agreements" (IP1, para. 49). IP7 confirmed that many "go on a basis of trust, on a handshake, and are not secured at all" (IP7, para. 9). He explained this approach by stating that there are "many very long-standing relationships, some of which [have lasted] longer than 50 years and are passed on from generation to generation and are therefore not really secured by any contract system" (IP7, para. 9). In his opinion, this works well and perhaps better than if every detail is contractually agreed upon, as a contract "restricts flexibility, which is essential in the industry" (IP7, para 10). IP12 reported that "there [have been] cases in the past where you didn't get out of contracts, and [the company] was then stuck in that market" (IP12, para. 22). IP12 defined these agreements as more of a "gentlemen's agreement." "We simply want to avoid entering into contractual obligations. There is usually something documented in the email correspondence, but of course, there is no signature underneath" (IP12, para. 20).

3.5.1.2 Exclusivities

One clause that could not be missing in past agreements was an arrangement regarding territorial exclusivity. The interviewees concurred that these agreements are no longer employed extensively; IP2 asserted, "That kind of reflects the trend that has occurred over the years" (IP2, para. 49). IP4 explained this fact by stating that exclusivities prevent healthy competition in the target market: "Exclusivity leads to a certain saturation after a long period of cooperation in respective areas. As a result, we feel that growth has become too undynamic" (IP4, para. 76). IP7 posited that, if growth seems stagnant, then it may be worth "adding a second or third partner to revitalize the market" (IP7, para. 94).

3.5.2 Monitoring Mechanisms

To steer the partnership with independent distributors, exporters attempt to implement a variety of measures that allow them to govern the partner's performance. Additionally, these measures are intended to influence the partner's behavior within a framework of cooperation and thus limit the partner's independence to some extent. SME leaders cannot implement a complex control system because the distributors are autonomous and typically dependent on their foreign counterpart (Lee, Chen, and Kao 2003); consequently, the measures identified and explained in the following sections should be understood as part of a cooperative relationship.

3.5.2.1 Monitoring the Distributor's Performance

To manage distribution in a targeted manner and successfully advance foreign market development, company representatives recommended utilizing sales, revenue, and budget planning to set realistic targets and plan the future course of business. In close consultation, the distributor and the SME determine target figures that are to be achieved within a defined period. As IP1 explained, exporters are "trying to get a little more commitment [from] the distributor" despite its autonomy. He recommended allowing the distributor to feel "that [he is] free, and […] should do what [he] want[s]" but also encouraged other SME leaders to "be a little more precise about the targets that [the distributor] thinks are realistic and that [they] want to achieve together" (IP1, para. 147). The result should be a road map that forms the basis for subsequent collaboration and orients both sides for future target-performance analyses to evaluate the progress of the export business and to provide timely intervention if problems arise. Consequently, IP2 summarized that the distributors affiliated with his company are mainly steered via the monitoring of performance indicators:

> *We just look at the development of the business. We also make corresponding sales plans [and] budget plans with our partners and measure them accordingly. If things are quiet on their side, but the figures are good, then we can live with that. If the numbers are rather bad and it is quiet, then we are worried and then we become active because we then, of course, want to reactivate our partner or let him at least explain to us why the numbers are the way they are. So, I would say that we manage this through controlling. (IP2, para. 91)*

When asked about common key indicators, company representatives primarily mentioned sales as a viable control variable, as "this is the easiest for [the exporter] to observe" (IP2, para. 95). In addition to the revenues generated from the partnership, participants also noted that they observe the revenues that the distributor generates by selling the products to the end customer. IP4 stated that they "even exchange information with [their] partners about sales [to end customers]" (IP4, para. 46), as this information is useful for the exporting company to develop foreign market intelligence.

To ensure a regular exchange between the stakeholders of the companies involved, short-term planning and current business performance are discussed in monthly meetings. These meetings are also utilized to address problems and impending underperformances so that solutions can be determined as quickly as possible.

> *Once a month, these partners report certain sales figures. Once a month, we also prepare our figures. I discuss the figures with the entire team, also with the export managers, and they then contact their partners about it. That can be very quick but also end up in a deeper discussion. [...] For example, the turnover does not work, for whatever reason. Then it's discussed, what the turnover should look like, what [the distributor] intends to do about it, and when revenues [will be] reviewed again. (IP4, para. 53)*

Furthermore, annual meetings allow both parties to conduct a business review and to evaluate "[where are we] looking in the same direction, [...] where did our focus totally change, then readjustments are made." This makes annual meetings useful "control and mirror instrument[s]" (IP13, para. 16) that are comparatively easy to implement.

To structure discussions with the partner and to standardize internal processes to some extent, company representatives reported the usage of questionnaires and agendas. IP4 explained:

> *We have agendas for everything; yes, I'll just call them agendas now, because we want quite a bit of consistency there too. [...] We want to check the same topics again and again with each partner, address them, or at least point them out. (IP4, para. 56)*

IP9 also indicated the usage of "catalogs of questions that [the export managers] try to ask [the distributors] every month to actually understand how much sales performance they are really achieving" (IP9, para. 5). These questions are provided to the responsible export managers so that they can regularly examine the most important points regarding the distributor's performance and progress. Hence, comparability can be generated, and the profitability of various distributor partnerships can be assessed.

Additionally, more extensive on-site meetings are held less frequently (e.g., quarterly, semiannually, or annually) to reflect on the results of the alliance. These meetings are often utilized to visit the partner so that face-to-face conversations can occur. IP4 outlined that he "made it a rule that the export managers have to be on-site at least four times a year." These business trips enable export managers to extensively "[review] quarterly figures […] at the grand scheme of things," to discuss "what is happening in the market, [...] where [the distributor] see[s] problems, [and if] there were relevant complaints," and then "say goodbye again with some to-dos on everybody's lists" (IP4, para. 54).

Monitoring the product portfolio of the distributor was also mentioned by IP4. He described that this allows leaders to assess the partner's performance in two scenarios. First, the product portfolio can be monitored to determine whether the partner has introduced the latest technologies and product offerings to the market and thus is actively approaching customers, introducing technological developments, and expanding the exporter's competitiveness in the target market. IP4 explained that "this is where some partners have to be strongly encouraged as he, of course, says 'If the customer is satisfied after all, why should I approach him about a follow-up product?'" (IP4, para. 49). Second, the product portfolio and ordering behavior can be determined in relation to the industries represented in the country, which allows leaders to evaluate whether the partner is exploiting the market potential with the exporter's product portfolio: "The export managers usually know which industries or trades are dominant in the respective country or to which our partners have access. And we also try to put that in relation to the knives [the distributor] buys" (IP4, para. 49).

3.5.2.2 Monitoring the Distributor's Professionalism and Know-How

One typical problem in international cooperation between independent companies is the lack of transparency in daily business. IP12 explained, "[We cannot] understand exactly what is happening on the other side." He added, "The difficulty is that we have little influence on the activities of our partner" (IP12, para. 12). Consequently, exporters utilize measures not only to assess the partner's economic performance but also to ensure that the partner's competencies and general professionalism are guaranteed at an appropriate level. These measures include, specifically, the provision of training courses and mandatory seminars in which the sales partners receive technical training on the exporter's current and newly developed products and through which the exporter can "pass on information that is very important" (IP2, para. 73).

Despite mandatory seminars and training courses, the "partners often do not have the technical know-how and expertise that representatives of the exporter have" (IP5, para. 100). To ensure customer consulting and support competence, "on-site consultation is definitely necessary" (IP4, para. 48). Consequently, representatives of the exporter may accompany the distributor to the end customer and offer the support of their technical knowledge. Such measures are often utilized when selling products that require intensive consultation or with large customers. The distributor usually perceives these measures as supportive, although IP1 admitted that from the exporter's perspective, these appointments can also be a monitoring instrument:

> *What we offer is—and this is, if you will, from our side a little bit of control and at the same time support—that we say, "Guys, if you have big important customers where you feel a little bit insecure, [...] why don't you take us with you?" Then we send a salesperson or an engineer or both along, and he sets an eye on how does [the distributor] sell, which contacts does he have, does his sales system work, how does he appear to customers? [...] We call that support, but of course, it's also a bit of control, looking at how the person we're working with performs. (IP1, para. 135)*

Additionally, it is usually in the exporting company's interest to maintain the quality standards as far as possible. This includes ensuring that the partner's ideology aligns significantly with the exporters, especially in work ethic (considering the cultural conditions of the country). IP2 referred to the "[company name] philosophy, namely that of being able to sell these products with a high level of advisory competence and commitment, but also with a lot of confidence, and to be able to explain them technically" (IP2, para. 123). IP4 emphasized that it is important to him that German quality standards of service find their way into the foreign market:

> *This starts with mundane things, such as availability by telephone during normal business hours in the country. [...] If the customer wants information about [company name] products, he should be able to meet someone within seconds who can provide professional information. (IP4, para. 46)*

Another option to assess the partner's professionalism is to examine the partner within the framework of customer satisfaction surveys. IP4 explained, "We leave it up to the respective partners to conduct customer satisfaction surveys in their markets. We want to do that every year." He added, "We hold annual meetings where a long catalog of questions is asked. Then the partner should also have conducted a customer satisfaction survey once a year" (IP4, para. 47). IP4 further reported the option of obtaining feedback directly from the customer by providing easy access via the company website: "If any customer has significant problems with [a distributor], then […] he or she can contact us on our homepage via the contact form" (IP4, para. 48).

The general consensus among exporters was that monitoring measures must be carefully embedded into the relationship. Monitoring should be seen as a bilateral flow of information that apprises both sides, thus fostering cooperation. IP10 stressed that "if it is a good relationship, then [monitoring] is a normal, adequate means that is used to update each other, to push each other." He continued, stating that it can be "a benefit for both sides […]; there is nothing wrong with that" (IP10, para. 53) and highlighted that information "flows both ways; it has to be something normal, something daily, in terms of exchange" (IP10, para. 56).

Overall, it can be concluded that monitoring activities do not harm cooperation between manufacturers and distributors. Monitoring, according to IP10, "just has to be so that we know where we both are. At what level, how do we meet, how do we look each other in the eye" (IP10, para. 49). Thus, a certain degree of monitoring is part of every healthy business relationship and ensures that both companies benefit from the partnership.

3.5.3 Incentive Mechanisms

3.5.3.1 Economic Incentives

Another substantive focus during the interviews was motivating the distributor to invest its time and effort in selling the exporter's products and to prefer the exporter over other exporters within its portfolio. Interviewees cited traditional extrinsic incentive tools that are already widely utilized in larger companies and other contexts. IP10 commented that the exporter can "try to lure [the distributor] financially." He further clarified, "the more that [the distributor] gets out of it for him, the more he is willing to contribute to the relationship" (IP10, para. 41). Thus, the partner's extrinsic motivation can be promoted by, for example, introducing bonus rates and commissions that are received when predetermined targets are reached. IP2 explained that "these are negotiated every year" (IP2, para. 103). Furthermore, an incentive can be created through price adjustments, which effectively facilitate higher margins for the distributor. IP12 described, "We try to position ourselves slightly below the competition in terms of price with our sales partners, which means that we give our sales partners an incentive to earn a little more money by selling [our] products" (IP12, para. 10).

However, opinions differed on the effectiveness of such measures. On the one hand, setting financial incentives was perceived as a useful "adjusting screw" (IP10, para. 41). The distributor has the opportunity to generate additional revenue by performing well and reaching target figures. For the exporter, this implicates extensive foreign market penetration and the effective exploitation of market potential. IP10 described this as a mutually beneficial situation from which both parties can benefit.

> *If I didn't offer them an incentive, they wouldn't work for me and would say, "Well, I don't earn that much. I'll do it when I have time, but it's not my main business." So you have to be interesting, and you can only be interesting if you offer financial incentives. Commissions or something similar. Because that's the only thing that counts in trade and in the relationship. We all want to earn money. It has to be a win-win situation, and if both see a good deal in the partnership, then things will be fine. (IP10, para. 42)*

On the other hand, some participants stated that the influence of financial incentives on motivation is limited. IP9 critically commented, "I'm firmly convinced that you can't motivate with money, [not] in your own sales force nor with distributors. I certainly cannot force a project's success by increasing the commission from 2.5% to 5%" (IP9, para. 12). Instead, other measures can be utilized as extrinsic incentives. Agreeing on exclusivities is often seen as a popular means, especially at the beginning of a partnership, to protect each other against competition and to strengthen the business relationship. However, the trend is towards less exclusivity because it reduces competitive pressure over the years of an ongoing business relationship, which in turn is detrimental to the sales partner's proactive behavior. Thus, depending on the manufacturer's position in the target market, relinquishing exclusivity can be a natural motivator. IP4 explained, "I'm talking about the disadvantages, the certain complacency that takes place. […] [W]e always try to shape this competitive situation again, [so] that it is motivating but does not lead the partners into an ominous fight against each other" (IP4, para. 109).

Another factor that may stimulate distributor motivation is the reputation of the exporting firm and its products. Distributing globally cherished brands simplifies the distributor's efforts to spread an exporter's products to customers – these goods serve as a kind of flagship for the distributor's product portfolio. IP4 highlighted that "this makes it easier for [the distributor] to sell. It's easier to sell a good, globally known brand" (IP4, para. 105). IP9 added that the distribution of high-quality and well-known brands improves the distributor's standing in the market, which allows greater potential for the distributor's customer portfolio and thus increased financial success:

> *For the respective distributor, it's very much about the reputation of the exporter. So I do believe that, if you say in Indonesia that you represent [well-known company], you are perceived differently as a distributor than if you say "I represent Schmidt KG and Müller KG." (IP9, para. 8)*

Furthermore, IP12 stated that one incentive his company offers is its broad product portfolio; thus, his company can incentivize the distributor with "this system idea of a 'one-stop provider'" (IP12, para. 10). For certain markets, extra effort is required to offer the distributor a sufficient incentive. IP12 explained that in the Swiss market, his company lacked "three to four critical products that were a must-have in the market." These have been developed over the past few years, which is why IP12 asserted, "now we actually have the product portfolio for the Swiss market 95% complete; now it slowly has to be possible to achieve more" (IP12, para. 34).

3.5.3.2 Social Incentives

In addition to the possibilities for promoting extrinsic motivation, the measures for promoting intrinsic motivation appear to be even more important for SMEs. Here, aspects of appreciation for the partner's cooperation and the partner itself are critical. After all, the exporter's efforts to maintain and advance the partnership also encourage the distributor to continue its efforts. Although smaller companies face resource constraints, the most important measure mentioned at this point was on-site visits. As IP8 explained, the feeling of appreciation and relevance forms the basis of a healthy business relationship and promotes motivation for effective cooperation.

> *I just think that everyone should make the effort. That's one of my biggest criticisms of the German business. The people who work for them, directly or indirectly, they also have certain expectations, of course. What do you think of someone who doesn't even bother to visit you in person? The person who is not even willing to go to India or elsewhere. What would you interpret from that? (IP8, para. 212)*

Visiting the distributor also stimulates motivation on another level. The manufacturer's offer to accompany the distributor's sales representatives' visits to customers can be an appropriate opportunity for the distributor to increase the local company's reputation with the customer base. At this point, the sense of appreciation is transferred from the distributor to the customer. IP6 described that the representative can demonstrate to customers that their "interests [have been represented] in such a way that even the representative from the head office is joining the meeting" (IP6, para. 71). By appearing at the customer's site accompanied by a manufacturer's representative, the distributor can strengthen its standing with the customer. The customer perceives that they are "so important to the [distributor] that the German engineer is now coming in and developing a solution together with [them]" (IP3, para. 148). IP3 emphasized that in many cultures, this is an important measure to build strong ties to the customer: "In South America and also in Asia, it is simply a very important measure for customer retention" (IP3, para. 148).

Another motivating factor is the common idea of solidarity and communality within the business relationship. IP5 described that collaborative growth in particular is motivating and enjoyable for both parties:

> *With the first success also comes the excitement and fun of the cooperation, which boosts the motivation to work hard. Everyone talks about making money, of course, no question about that, but it's also fun when you can grow together. When you are successful, celebrate your first successes and simply create a new story together. (IP5, para. 84)*

In keeping with the basic idea of collaboration, another motivating factor is that the manufacturer provides support to the sales partner, if necessary. Manufacturer support is particularly in demand if a customer has special inquiries that the distributor cannot easily address due to limited technical knowledge. Cooperation between the distributor and the exporter's application technicians or engineers, who offer support and develop solutions, is a popular means here, as this relationship promotes a professional appearance for the customer and strengthens interorganizational cooperation. IP3 described, "The technicians travel to this particular country and work out a solution with the partner or even directly with the end customer." He continued, "In some cases, they also take a look at the production, the workpieces, and the requirements, take this back to Germany, develop a product here and send it to the partner" (IP3, para. 124).

Developing a relationship that can almost be described as "family-like" was a high priority for the interviewees. This level of interorganizational cooperation can be achieved by socializing the distributor's employees despite their formal autonomy. IP4 described that this integration can occur, for example, through invitations to the head office in Germany:

> *Before, during, and after the event, all partners worldwide, including Australia and Argentina and so on, are in Germany for four to five days. This family is then celebrated a bit. And that's still ingrained in many partners, at least in those who have been around for a long time. With the new ones, who are interested in [export company], it may certainly also be like that. Because they get that to some extent. They visit us at trade shows. They see how [export company] deals with its partners. Our partners are integrated into our large trade show booths. They appear as part of the [export company] family. However, I believe that it is now even a little bit nostalgic, this family. (IP4, para. 104)*

The exporter and its international distributors are presented to the outside world as a single entity, which contributes to a strong sense of belonging and is an important factor for distributors. IP9 summarized that both parties should draw their motivation from developing a long-term, cooperative, and perspective-rich business relationship "simply by saying 'this is a long-term process and a long-term business model for us as well as for the partner'" (IP9, para. 13).

3.5.4 Relational Mechanisms

3.5.4.1 Communication

Communication between the manufacturing company and the sales partner is a key factor in managing the partnership and achieving satisfactory export performance. To steer the sales partners in the direction of continuous performance, exporters should establish a high and content-rich communication density and contact proximity. IP4 described that this prevents the distributor from merely allowing the partnership to run alongside its daily business: "I think that the closeness and proximity of our contact lead to the partners knowing that they can't afford to go under the radar like that" (IP4, para. 80). IP6 confirmed that digitalization has also left its mark on distributor management over recent decades: "Digitalization and increased networking play a major role in our day-to-day business. Both in the relationship between us and the distributor and between the distributor and the end customer." Considering the future, he further elaborated that "it's already something you have to watch very closely. There's just a clear trend toward virtual communication" (IP6, para. 107).

Furthermore, IP5 highlighted that higher levels of transparency also contribute to a successful partnership. If the partner openly conveys market feedback and detailed information about sales activities to the manufacturer, then this forms the basis for planning realistic goals and promotes trust between actors: "There is always relatively good experience on how transparent an exchange can be. If there is maximum transparency, then there is actually no reason to say, now I'd better find out for myself" (IP5, para. 123).

Regarding content, the continuous exchange of market information and developments is important when communicating with the distributor. A distributor represents the connection between the exporter and the customer by transmitting information to the exporter regarding existing customer wishes and the emergence of new relevant markets. Thus, IP4 stressed regular meetings to provide a setting for an extensive exchange of information: "They are then visited for the annual meeting, where the overriding issues are discussed again on an even larger scale. Then it's also about things like product proposals, what information comes from your market, […] and so on" (IP4, para. 55).

Distributors are not the only source of relevant information for the exporter, but interviewees articulated that the distributor's information is the most precious. Since the distributor is in close proximity to the market and directly connected to the customer, IP2 stated, "He has the market sovereignty; he has the customer contact" (IP2, para. 108). IP2 further added:

> *We just can't manage these end-customer contacts in this quality, in this breadth. That's why we need such partners, and of course, you have to trust them. [...] That's why we place a lot of value on what we hear from them. (IP2, para. 108)*

3.5.4.2 Social Ties

The following excerpt from the interview with IP8 reflects the importance of social ties in international alliances. Interviewees stated that if the personal relationship is healthy between the firm representatives who are in direct contact with each other, then this forms the ideal basis for a successful business relationship.

> *IP8: If our products are not selling right now, then products from other manufacturers in his portfolio are selling. It's very, very simple. Why should I spend money, time, and effort to push a product that is not selling well enough when I can put the energy into a product that is currently selling like hotcakes? Because, of course, they always argue in a profit-maximizing way. They are businessmen.*
>
> *Moderator: And how do you deal with this?*
>
> *IP8: First and foremost, through my personal relationship. Because I'll tell you one thing, if you are friends with someone, he has a completely different interest in the partnership. (IP8, paras. 116–118)*

For IP5, the interpersonal relationship "makes 80% [of the deal], no matter how professional the company is. If the two main people there understand each other very well, then […] that is already a very big step into a common future" (IP5, para. 82). During the interview, IP5 summarized his point of view:

> *The personal relationship, the interpersonal aspect simply has to be right, because you definitely prefer to talk to someone you like. You'd much rather do business with the person you like. If both of them say that there is no room for improvement [on a personal level], then the bar is already very high for anyone who might come along. (IP5, para. 138)*

IP10 contrasted the importance of economic aspects in an exporter–distributor partnership with the importance of social ties between the parties involved. For him, "a good business relationship is not just about the financial business, there is also a human component," and, he stated, "it is always a good mixture of both. A good business deal for both sides, but also a humanly impeccable relationship" (IP10, para. 45). Furthermore, he mentioned an example of a partnership that he terminated because of an insufficient social bond between himself and his distributor. He stressed that they would have been able to "achieve turnover from [the partnership], but the human component was just not right." He concluded, "In the long run, that's not my partner" (IP10, para. 45).

The personal relationship between the key actors is crucial to the success of the export business because it is an important motivating factor, especially when the exporter is competing with other companies. When building a personal relationship, each party must convey the importance that is attributed to the partner. If the partner feels a sense of relevance in the partnership, then this promotes a climate of cooperation and the partner's motivation to provide additional effort. Accordingly, IP8 explained that "it is important in every relationship, private and business, to maintain interpersonal appreciation, which makes people realize they are important. […] The moment they think that I don't care about them, their willingness to perform is about 0" (IP8, para. 216).

3.5.5 Summary of Results

The categories deduced in the course of the interview evaluations were transferred into a classification scheme that illustrates the different governance mechanisms and applied measures. Table 12 provides an overview of the identified governance mechanisms, a corresponding category definition, exporter actions associated with the particular governance mechanism, and exemplary quotes from participants.

The first topic, contractual governance**,** includes the **formulation of agreements,** which range from verbal agreements to unsigned, written commitments. This underscores that SME leaders are usually less formal in their management approaches (Quinn 2011; Ramon-Jeronimo, Florez-Lopez, and Araujo-Pinzon 2019). Researchers argue that contracts are particularly relevant as a basis for international partnerships (Cavusgil, Deligonul, and Zhang 2004); however, the interviewed representatives clarified that SMEs refrain from creating binding contracts. This may be the major discrepancy between smaller and larger companies that are internationally active and thus contradicts existing assumptions (Cavusgil, Deligonul, and Zhang 2004; Griffith 2010; Homburg et al. 2009; Katsikeas, Skarmeas, and Bello 2009). During the interviews, it was repeatedly revealed that SME-distributor relationships tend to be predominantly based on trust. This may be because partnerships have existed for generations in some cases and have yet to be contractually formalized. Even with new partners, SME leaders expressed reluctance to sign contracts, thus allowing flexibility and cautiousness by not contractually binding the company to unknown circumstances. Shipley, Cook, and Barnett (1989) state that **exclusivity** is one of the top three mechanisms for managing distributors; conversely, the subjects of this study described that the allocation of exclusivities is avoided whenever possible.

The second topic, monitoring mechanisms, contains two categories that were derived from the interviews. The first category focuses on the distributor's actual effort as revealed by **monitoring the distributor's performance** via regular meetings and well-structured reporting. This category covers the operative control of the partnership, which incorporates all measures that exporters utilize to steer future business planning (e.g., definition of key performance indices [KPIs] or performance-target analyses). Hence, the exporter can ensure that the distributor's goals and interests complement the fulfillment of its own expectations. These mechanisms align with the construct of output control, which is a monitoring mechanism through which the exporter assesses the performance outcome achieved by the distributor in the foreign market (Aulakh and Gençtürk 2000; Aulakh, Kotabe, and Sahay 1996). The second category, however, **monitoring the distributor's professionalism and know-how,** refers to the exporters' measures that influence the quality of the distributor's marketing activities in the export market. This reflects the construct of process control, which is "the extent to which the principal monitors the agent's behavior, or the means used to achieve desired ends" (Aulakh, Kotabe, and Sahay 1996, p. 542). Although offering training programs and seminars generates additional costs, SME representatives claimed that they are an indispensable measure for quality assurance in service and sales. To acquire an impression of the partner's sales processes, on-site visits should also be part of the partnership. Additionally, the customer may be a useful source of information about the distributor's service quality. Implementing customer satisfaction surveys can be a useful tool to obtain feedback from the customer's perspective.

Table 12 – Mechanism Classification Scheme Derived from the Qualitative Interviews

Governance Mechanism	Definition of Mechanism	Exporter Activities	Example Quote
Contractual Governance			
Formation of agreements	Formation of agreements refers to the design of semiformal arrangements that range from verbal to unsigned, written commitments.	• Loose verbal agreements • Gentlemen's agreements • Written commitment statements	"We simply want to avoid entering into contractual obligations. There is usually something documented in the email correspondence, but of course there is no signature underneath" (IP12, para. 20).
Exclusivity	Exclusivity refers to the arrangement of agreements on territorial exclusivity.	• Stimulating competition by refraining from exclusivity agreements • Adding distribution partners to region	"Exclusivity leads to a certain saturation. […] As a result, we feel that growth has become too undynamic" (IP4, para. 76).
Monitoring Mechanisms			
Monitoring the distributor's performance	Performance monitoring refers to the means that are utilized to define targets and to review the actual results that the distributor attains in the foreign market.	• Establishment of a reporting system • Development of question catalogs • Implementation of regular meetings for revision and planning • Monitoring of distributor's portfolio	"We look at the development of the business. We also make corresponding sales and budget plans with our partners and measure them accordingly" (IP2, para. 91).
Monitoring the distributor's professionalism and know-how	This category incorporates the exporter's measures that influence the quality of the distributor's marketing activities in the export market.	• Offering mandatory trainings and seminars • Providing on-site consulting • Monitoring quality standards • Providing marketing material • Implementing customer satisfaction surveys • Enabling accessibility to the exporter's head office for customers	"We offer trainings, and we also require them. They can take place in the foreign country, but they can also take place in Germany" (IP3, para. 123). "If any customer has serious problems with [a distributor], then […] he or she can contact us on our homepage via the contact form" (IP4, para. 48).

Table 12: Mechanism Classification Scheme Derived from the Qualitative Interviews (continued)

Incentive Mechanisms			
Economic incentives	This dimension summarizes all measures that are utilized to stimulate the distributor via monetary incentives.	• Bonuses • Export firm's international prominence • Quality and reputation of offerings • Breadth of exporter's product portfolio	"The more [the distributor] gets out of it, the more he is willing to contribute to the relationship" (IP10, para. 41). "It's easier to sell a good, globally known brand" (IP4, para. 105).
Social incentives	This category refers to measures that intrinsically cause the distributor to cherish the interorganizational cooperation.	• Socialization efforts • Invitations to the exporter's German head office • Joint participation in trade fairs • On-site visits • Distributor support	"Before, during, and after the event, all partners worldwide, including Australia and Argentina and so on, are in Germany for four to five days. […] However, I believe that it is now even a little bit nostalgic, this family" (IP4, para. 104).
Relational Aspects			
Communication	This dimension refers to the multiple characteristics of interorganizational communication that influence cooperation between the parties.	• High communication density • High transparency • Rich information exchange • Bilateral information flow • Communication at eye level	"I think that the closeness and proximity of our contact lead to the partners knowing that they can't afford to go under the radar like that" (IP4, para. 80).
Social ties	This dimension highlights the importance of establishing strong interpersonal ties and corresponding measures between the main actors of both organizations.	• Developing personal relationships • Employing follow-up conversations • Feeling appreciated and important • Arranging informal get-togethers	"The personal relationship, the interpersonal aspect simply has to be right, because you definitely prefer to talk to someone you like. You'd much rather do business with the person you like" (IP5, para. 138).

Findings further indicate which **incentive mechanisms** are being utilized by SMEs in distributor partnerships. First, as in other intra- and interorganizational contexts, **economic incentives** were mentioned, but there was not consensus on the effectiveness of such incentives. This partially aligns with existing findings, which have revealed that economic incentives produce positive implications only to a limited extent (Obadia, Bello, and Gilliland 2015; Obadia and Stöttinger 2014). Interviewees stressed that particular attention should be paid to the motivational effect of product quality and corporate awareness in the international environment, as these provide indirect economic incentives for the distributor. They also constitute advantages in the competition for the distributor's time and attention and thus are of decisive importance (Gilliland 2003; Gilliland and Kim 2014). Study findings especially highlight the impact of **social incentives** that intrinsically motivate the foreign partner. Through purposeful socialization efforts, such as joint participation in trade fairs or invitations to the SME's headquarters, exporters have the opportunity to awaken a sense of belonging in the distributor, which can decisively contribute to the partnership's stability in the long run. This is consistent with previous findings from non-SME-specific research settings (Dong, Tse, and Hung 2010; Gilliland, Bello, and Gundlach 2010; Obadia, Bello, and Gilliland 2015).

Two categories can be assigned to the fourth overarching topic, **relational aspects**. The **communication** category refers to the multiple characteristics of interorganizational communication that influence cooperation between the parties. Findings suggest that the way in which communication occurs has a fundamental function in the management of independent international distributors. Those managing the export company should ensure that a frequent and transparent bilateral flow of information prevails at all times during the partnership. Export managers should ensure that communication constantly occurs at eye level due to the distributor's formal autonomy and the SME's often pronounced dependence on the distributor.

Judging from the interviews, the most fundamental lever for a successful partnership is **social ties** between main actors. Since this aspect does not involve any costly resources, this is a crucial result for the export practice of smaller companies. Studies demonstrate that if a personal relationship is strong, then it can steer the course of the partnership during more challenging phases (Oliveira and Lumineau 2019). According to the interviewees' experiences, a strong personal bond and an almost friend-like relationship with the partner is the most effective measure against opportunism and other relationship-damaging behavior. Especially for SMEs, this creates a safety factor in high-risk undertakings that offer a significant downfall, such as in the internationalization process.

3.6 General Discussion

The internationalization process typically requires substantial resources, which presents many SMEs with major challenges. Larger companies can often decide strategically whether to establish a production hub or subsidiary in the target market or to choose a non-equity entry mode; however, SMEs often have no other option than to export to the international market via a non-equity entry (through, e.g., independent distributors). This approach involves less investment and therefore offers less risk for SMEs (Barnes, Chakrabarti, and Palihawadana 2006; Obadia and Vida 2006). Furthermore, selling through distributors circumvents and, in the long run, may reduce the knowledge deficit about the foreign market as well as the market's prevailing business practices and customer needs because distributors assume any marketing and sales activities that arise in the respective target market (Child, Rodrigues, and Frynas 2009; Obadia, Vida, and Pla-Barber 2017).

As distributors are autonomous from the exporter, the latter faces a number of challenges in managing distributor partnerships. Additionally, in contrast to domestic distribution partnerships, cultural and geographic distances limit the exporter's scope of action. Many common management practices involve high costs and sophisticated market intelligence or simply cannot be employed because the exporter lacks formal authority over the distributor (Aulakh and Gençtürk 2000). Consequently, the question arises: how do SMEs manage distributors to encourage action that benefits SME and cultivates the foreign market in their favor?

The purpose of this study was to broaden the knowledge about governance practices commonly utilized by SMEs to steer their international distributors; thus, this study contributes to distributor governance literature by investigating SMEs only. To offer a fresh perspective on the topic, this author utilized an exploratory research approach and conducted qualitative interviews with representatives from German SMEs. The study further contributes to governance research by providing a governance classification scheme that summarizes identified governance activities. Furthermore, findings contribute to motivation research in distributor governance by highlighting incentive mechanisms that encourage the distributor to invest time and effort in marketing the exporter's products. The results also deliver updated insights on Shipley, Cook, and Barnett's (1989) governance mechanisms. Despite the focus on SMEs, the study findings generally extend the knowledge of incentive systems utilized in cross-border interorganizational relationships, as empirical evidence in this field to date has been lacking.

3.6.1 Managerial Implications

The study provides several implications for managerial practice. In the following, managerial advice that allows SME leaders to optimize distributor cooperation and performance is provided for each category.

Agreements. Compared to larger companies, SMEs typically utilize gentlemen's agreements rather than formal contracts to seal their partnerships. To maintain the resulting flexibility and to provide some level of business security, SME leaders are advised to stipulate some terms and conditions for the alliance. This can be done, for example, via a standard one-page contract, which can also be modified for individual partnerships as required. The main advantage is that the basics are contractually secured. Part of these standard terms and conditions could include, for example, the legal basis for future business transactions (e.g., determination of the place of jurisdiction). If necessary, price ranges and discount patterns could be defined here as well to offer the distributor a sales framework and thus prevent cannibalization effects and price dumping. Additionally, information can be provided regarding whether the simultaneous distribution of competing products is permitted. Such a clause could be integrated depending on the exporter's market position.

Exclusivity. In export practice, especially in new partnerships, attempts are made from the outset to circumvent agreements on territorial exclusivity. If preexisting partnerships have stipulated specific territorial exclusivities, then a renegotiation may be necessary. As a transitional solution to the termination of exclusive contracts, SME leaders are advised to reduce the size of the original territory and to enter partnerships with other distributors for the remaining territory. Consequently, over time, healthy competition can be revived in the targeted region. Another approach may be to limit exclusivity to a specific time frame (e.g., one year). Following this period, a new benchmarking can occur and the market can be reassessed.

Monitoring the Distributor's Performance. To adequately assess the distributor's performance in the foreign market, a reporting system should be implemented. To establish this appropriately, the first step should be to agree on KPIs. According to the interviewees' experiences, for example, figures on turnover and sales, including growth rates, should be considered here. Additionally, order statistics and changes in the customer base could be tracked as part of the reporting process. These may provide further detailed information about market penetration and changing customer needs. Monitored statistics can then be utilized in a second step to conduct target-performance analyses. Consequently, these KPIs provide information on whether predetermined targets have been achieved. Finally, the data generated by the reporting system can be utilized to produce realistic forecasts and target agreements for future business.

Monitoring the Distributor's Professionalism and Know-How. To ensure the distributor's professionalism, common practice requires the distributor's sales staff to participate in trainings and seminars. Examples of such opportunities include training courses on the writing and standardization of offers, seminars on negotiation strategies and optimal pricing, and sales training camps. For reasons of customization, these are typically offered directly by the exporter. Alternatively, however, offers from the industry can also be utilized.

Economic Incentives. According to the study findings, awarding bonuses at the end of a predetermined period or upon achievement of predetermined targets is a popular means of increasing sales. What the exporter should ponder in detail, however, are the KPIs to which the promised bonuses are connected, as these are the key determinants of the behavior being incentivized. For example, if the bonus is linked to turnover, then the distributor is free to act in the manner that both parties agreed was appropriate for target achievement. However, if the primary goal is to expand market share in the target market, then it may be possible to achieve more target-oriented improvements if, for example, the bonus is linked to new customer acquisition.

Social Incentives. During the interviews, participants specifically emphasized that feelings of cohesion and familiarity create positive incentives and promote socialization with the distributors. One possibility, therefore, is to organize invitations to the German headquarters as part of an annual partner event. During this type of event, exchanges could be facilitated between the exporter's partners and representatives as well as between the partners from different countries. It would be advantageous to arrange for a relaxed, after-work atmosphere and to provide light and cost-effective entertainment, such as a factory tour. Additionally, it may be worthwhile to host events such as official awards ceremonies. Public recognition of this kind may incentivize the distributor to increase efforts in its daily business.

Communication. Ensuring a fluid exchange of information is necessary for transparent and smooth collaboration, but it is essential for partnerships that exist over long distances. Specifically, time differences and cultural conditions that influence the partner's availability (e.g., midday rest periods) make a regular exchange difficult. According to reports from the SME interviewees, video conferences can often lead to problems due to poor Internet infrastructures. At the beginning of the partnership, it is therefore advisable to define periods of time during which both parties can be reached on short notice via other communication channels (e.g., telephone or email) to allow closer exchange and prevent frustration due to poor availability. This also ensures that information can be conveyed bilaterally in a timely manner. Furthermore, since exporters usually manage more than one distributor, it is advisable to maintain a record of each conversation, at least in brief bullet points, to ensure efficiency in the content of the exchange.

Social Ties. Particular importance is attached to the interpersonal relationship between stakeholders of both companies, as this forms the basis of the partnership and has a decisive influence on whether a cooperative business relationship can be established and continue to exist. Accordingly, the personal level should be considered in the distributor selection process. Interviewed SME representatives reported that in some cases business relationships have existed for several decades. In such cases, the person in charge cannot simply decide with whom the exporter will cooperate in the future (in SMEs, this is often caused by generational changes). In this scenario, it is recommended that the new person in charge be familiarized with the partnership by a predecessor and introduced to the counterpart in the foreign market.

3.6.2 Limitations and Implications for Further Research

Despite the many methodological strengths of qualitative research, it also has some limitations. Although the coding and categorization process was triangulated, the evaluation process of the qualitative study was characterized by a comparatively high degree of subjectivity and personal understanding on the part of the author. Moreover, qualitative research is centered on the participants' subjective assessments and experiences. Patterns can be identified based on the sample, but these should be transferred to the larger population with caution. Although data collection in the B2B area is considered to be challenging, the findings should be validated based on a greater sample to clarify the impact and weight of identified practices on export performance. To truly understand how governance mechanisms influence export performance, it may be insightful to investigate several potential mediators, such as the distributor's effort to cooperate, since governance mechanisms are performed with the intention of navigating the distributor's behavior (Burkert, Ivens, and Shan 2012; Heide 1994; Jap and Ganesan 2000) and cooperation has been acknowledged as an essential factor for higher export performance (Obadia, Vida, and Pla-Barber 2017; Pinho 2016). Empirical studies on the applicability and impact of incentive mechanisms on exporter–distributor relationships remain scarce; therefore, investigating their impact on relational and economic outcomes may be a promising avenue for future research.

Furthermore, the interaction of governance mechanisms should be examined. This is practically relevant since the exporter does not regularly apply only one sort of governance mechanism but typically mixes them to build its governance portfolio. Given that contractual governance is not applied by SMEs in the traditional sense, the interactions specifically between incentive and monitoring mechanisms would provide valuable additional insights.

Finally, since the present study focuses only on the exporter's perspective, acquired knowledge could be further refined through exploratory studies with distributors or even with a dyadic research approach, which simultaneously investigates both sides. This may ensure that the actual modes of impact and not only those perceived by the exporter are captured, thus enabling the provision of additionally robust recommendations for action.

4 Essay III – The More, the Better? The Applicability of Incentive and Control Instruments for Distributor Governance

4.1 Abstract

In response to the autonomy of the distributor and the competition between the manufacturers it represents, it is essential for exporters to develop a well-designed and effective governance strategy by resorting to various incentive and control measures. Yet current export research neglects the question of how different incentives affect the distributor and ultimately export performance and how these incentives interact when used simultaneously with control measures. Using a sample of 189 German exporters and partial least squares structural equation modeling, this study demonstrates that social and economic incentives, explained via distributor cooperation and distributor dependence, have a significant impact on export performance. Results show that social incentives positively influence both distributor cooperation and distributor dependence. Economic incentives, however, promote distributor dependence but exhibit a negative effect on distributor cooperation. The study investigates the different effects of various incentive–control combinations. The findings reveal that output control weakens the positive effect of social incentives and reinforces the negative effect of economic incentives on distributor cooperation. Process control, however, supports the positive effect that social incentives have on distributor cooperation, but is not able to counteract the negative effect of economic incentives. The results suggest that governance strategies should consist largely of the socialization of distributors and support activities, while financial incentives and output monitoring should be well-targeted and used cautiously.

Keywords: *exporter–distributor relationships, incentives, distributor cooperation, distributor dependence, motivation theory, resource dependency theory*

Additional Notes:

- Parts of this paper were presented at *2022 AMA Winter Academic Conference*, Las Vegas, 18.02.2022.

4.2 Introduction

"The distributor has the market sovereignty; he has the customer contact. That is our primary problem. We just can't manage these end-customer contacts in this form and on this scale from a distance. That's why we need such partners."

(Essay II, Interview Partner 2, paragraph 108)

As the preceding quote shows, it is common for exporters to rely heavily on independent distributors to establish a presence in the target market. For the purpose of this study, exporters are understood as manufacturing firms that offer their products in cross-border markets. For market cultivation, they cooperate with distributors that are located in the target market and are legally as well as economically independent (Aulakh and Gençtürk 2000). However, the emergence of a highly collaborative export partnership is often hampered by the distributor's autonomy and the fact that a distributor usually represents different product lines from multiple manufacturers (Gilliland 2003; Gilliland, Bello, and Gundlach 2010). Limited time and attention make it difficult for them to fully represent each manufacturer in the target market (Gilliland 2004; Gilliland, Bello, and Gundlach 2010; Obadia, Bello, and Gilliland 2015). The distributor routinely compares the effort required with the reward provided and therefore performs the activities that yield the greatest return for doing the least (Gilliland and Kim 2014). In particular, if an exporter requires demanding or time-consuming activities, the distributor may need to be adequately motivated to perform these tasks diligently (Katsikeas, Skarmeas, and Bello 2009) and, in turn, neglect competing assignments (Gilliland 2004). According to agency theory (Arrow 1985; Braun 1993), a principal (the exporter) does not have formal authority over the agent's (the distributor) actions (Aulakh and Gençtürk 2000), which are rather self-interested and focused on utility maximization (Braun and Guston 2003; Jap and Anderson 2003). Thus, exporters resort to incentive instruments to counteract distributor conflicts and ensure that the distributor devotes its time and effort to marketing the exporter's offerings (Gilliland 2003; Morgan, Katsikeas, and Vorhies 2012).

Motivation theorists have argued that the motivational context of the distributor largely influences its behavior and attitude toward the partnership (Benabou and Tirole 2003; Ryan 2012). Offering incentives allows the exporter to stimulate a certain motivational context in the distributor, ranging from extrinsic to intrinsic (Obadia, Bello, and Gilliland 2015). The exporter either induces the pursuit of short-term goals with immediate payoffs or a long-term, highly cooperative partnership working toward shared objectives. This study focuses on the mediating function of distributor cooperation to explain the impact of incentives on export performance, which refers to the financial performance achieved by the manufacturing company in the foreign market (Morgan, Katsikeas, and Vorhies 2012).

Distributor dependence is brought into focus. Resource dependency theory states that a company's success is dependent upon its environment, actors operating within it, and corresponding resources (Pfeffer and Salancik 1978). It is assumed that the utilization of social and economic incentives promotes distributor dependence, which leads a distributor to prioritize one exporter over the other based on the possible losses sustained when the partnership is terminated (Scheer, Miao, and Garrett 2010; Vázquez-Casielles, Iglesias, and Varela-Neira 2017). Due to the relationship-specific value generated within the partnership and the resulting benefit-based dependence (Vázquez-Casielles, Iglesias, and Varela-Neira 2017), the distributor strives for an enduring partnership and exerts efforts accordingly.

Anchored in motivation theory and resource dependency theory, this study contributes to export governance research by investigating the effects of incentive instruments on export performance via distributor cooperation and distributor dependence in exporter–distributor relationships. While there is considerable existing knowledge on incentive systems from other principle–agent constellations (e.g., employer and employee; see e.g., Shahzadi et al. 2014;

sales manager and sales force; see e.g., Mallin and Pullins 2009; Miao and Evans 2014), research on the effects of incentive measures applied to independent distributors is scarce.

The study further contributes to governance research by examining the interaction of incentive instruments with the two widely accepted means of output and process control. While output control refers to an instrument by which the exporter can monitor the economic outcome that a distributor achieves (Aulakh, Kotabe, and Sahay 1996), process control captures "the extent to which the principal monitors the agent's behavior, or the means used to achieve desired ends" (Aulakh, Kotabe, and Sahay 1996, p. 524). Since past research has mainly focused on investigating the effects of control measures when applied exclusively on different behavior (e.g., Dong, Tse, and Cavusgil 2008; Ju et al. 2011; Solberg 2006a) or performance outcomes (e.g., Aulakh, Kotabe, and Sahay 1996; Bello and Gilliland 1997; Ju and Gao 2017; Ramon-Jeronimo, Florez-Lopez, and Araujo-Pinzon 2019), this study combines incentive and control mechanisms to evaluate their interaction effect on distributor cooperation. In conclusion, the core research questions of this study are:

1. *How do different forms of incentives affect the distributor in its cooperation with and dependence on the exporter and ultimately export performance?*
2. *How do incentives and control measures interact when applied simultaneously?*

This paper is structured as follows. First, the relevant theoretical background is discussed. Previous theoretical considerations on the relevance and mode of action of incentive instruments are addressed and past studies are reviewed. The applicability of motivation theory for explaining the impact of incentive instruments is emphasized. Then, the mediating constructs, distributor cooperation and distributor dependence, and the moderating constructs, output and process control, are introduced. Next, hypotheses are developed concerning the underlying mechanisms of the action of incentive instruments in distributor cooperation and distributor dependence and their interaction with control measures. Using partial least squares structural equation modeling, the proposed model is tested for significance. This leads to the formulation of detailed managerial advice for compiling effective governance portfolios. The study concludes by identifying further avenues of research that would expand the knowledge of export channel management.

4.3 Conceptual Background

The following sections introduce the main constructs and underlying theories examined in this study. First, the social and economic incentives are introduced and their consideration in export research is discussed (Section 2.1). Subsequently, the constructs of distributor cooperation (Section 2.2) and distributor dependence (Section 2.3) are introduced and brought into context with the problem under investigation. Finally, the output and process control mechanisms considered in this study are introduced (Section 2.4).

4.3.1 Incentives

Incentives are commonly defined as “behaviors or policies […] that are designed to motivate active intermediary [distributor] support of the supplier’s [exporter’s] agenda” (Gilliland 2004, p. 88). They are provided through some form of compensation to encourage and reward specific activities or achieved goals (Holmstrom and Milgrom 1994). In practice, a portfolio of incentive instruments is typically assembled not only to best manage distributor behavior (Frazier 1999; Gilliland and Kim 2014), but also to respond to the complex and multifaceted distributor environment that requires diverse compensatory instruments (Feltham and Xie 1994). To avoid an unsuccessful export venture, incentives are used as a governance mechanism to ensure that the distributor serves the exporter and that partnership activities are focused on agreed-upon objectives (Bello and Gilliland 1997; Gilliland 2004).

According to the basic ideas of motivation theory (Ryan 2012; Benabou and Tirole 2003), an individual's extrinsic motivational context is affected by tangible, often monetary rewards. Extrinsic incentives are external regulations executed by the exporter that make an individual execute a specific activity because of a certain expected outcome that is separate from the activity itself (Deci and Ryan 2012). Therefore, extrinsic incentives are often perceived as controlled by the exporter, promoting the feeling of autonomy loss on the part of the distributor, which then results in negative consequences, such as less cooperative behavior (Deci and Ryan

2012). Conversely, actions affecting the distributor's internal motivational context are rather self-motivating (Frey and Osterloh 2002) and do not depend on immediate rewards (Davies et al. 1997; Obadia, Bello, and Gilliland 2015). Incentives addressing the distributor's internal motivational context stimulate adjusting the distributor's goals to the exporter's goals and create the awareness that efforts will be beneficial in the future (Deci and Ryan 2012).

This paper focuses on economic and social incentives as a means of influencing the distributor's extrinsic and internal motivational context. Economic incentives represent means that are highly outcome-oriented and are, thus, linked to objective measures of the distributor's performance outcomes (Gilliland 2003). Here, the incentive mechanism works through the increase in marginal returns that the distributor can achieve through additional efforts and higher performance (Williamson 1991; Zenger and Marshall 2000). Most applied incentive instruments are, for example, price or margin premiums (Wathne and Heide 2000; Gilliland 2004) or a bonus when reaching a sales quota (Kim and Lee 2017).

The key difference with social incentives is that they aim at influencing the internal motivational context, which serves to ensure a long-term orientation of the partnership instead of focusing on immediate financial compensation (Davies, Schoorman, and Donaldson 1997; Obadia, Bello, and Gilliland 2015). Thus, social incentives shift the nature of the partnership from purely transactional to relational by encouraging cooperation and the desire for continuity (Gilliland and Kim 2014). A variety of means are utilized, such as socialization efforts (Dong, Tse, and Hung 2010), the provision of market development programs (e.g., sales promotion materials, trade show collaborations; Obadia, Bello, and Gilliland 2015), or relationship-specific investments (Burkert, Ivens, and Shan 2012; Jap and Ganesan 2000).

To date, only a few studies have addressed the effects of economic (e.g., Dong, Tse, and Hung 2012; Obadia and Stöttinger 2014) and social incentives (e.g., Obadia, Bello, and Gilliland 2015) on export performance in the context of exporter–distributor relationships. Dong, Tse and Hung (2010), for example, have found a positive impact of economic incentives and socialization efforts on channel performance in the build-up and mature stages of a partnership. Other researchers have examined incentives and their effects on behavioral outcomes, such as coordination and conflict (Gilliland, Bello, and Gundlach 2010).

Obadia, Bello and Gilliland (2015) have analyzed the effects of high- and low-powered incentives and distributor role performance mediated by relationship quality and transaction-specific investments. Using a sample of 278 European exporters, their results demonstrate that, when applied simultaneously, the impact of low-powered incentives substitutes for the impact of high-powered incentives. Findings also support considerations about the mediating function of relationship quality and transaction-specific investments when low-powered incentives are applied. In contrast to Obadia and colleagues, this study uses distributor cooperation and distributor dependence as a means to explain the effect that different incentives have on export performance. Therefore, distributor cooperation and distributor dependence are discussed in the following sections.

4.3.2 Distributor Cooperation

Cooperation is defined as the joint work and effort expended to achieve both common goals and the respective goals of each party (Obadia, Vida, and Pla-Barber 2017). In this study, the focus is on the share that the distributor contributes to the cooperation. Ensuring that the goals of the respective parties are compatible is essential to a bilaterally cooperative partnership. Both parties should make an equitable contribution to the project and the achievement of the goals and, in the long run, a fair balance of effort and returns is achieved between the parties (Childers & Ruekert 1982; Leonidou et al. 2011). Interorganizational cooperation within the framework of exporter–distributor relationships is considered a key element, as it helps companies cope with the complexity and diversity of distribution tasks encountered in the export business (Johnson and Raven 1996; Alves 2018). It is mostly conceptualized as a dimension of relationship quality (Leonidou, Barnes, and Talias 2006; Palmatier, Dant, and Grewal 2006) and acknowledged as the essential ingredient for any international partnership (Mehta et al. 2006). Existing research shows that interorganizational cooperation largely accounts for the exporter's economic performance (Ambler, Styles, and Xiucun 1999; Mehta et al. 2001; Racela, Chaikittisilpa, and Thoumrungroje 2007).

4.3.3 Distributor Dependence

According to resource dependency theory originally developed by Pfeffer and Salancik (1978), the success of a company is shaped by its environment and the actors operating within it and is dependent on their resources (Griffith et al. 2017; Vazquez-Casielles, Iglesias, and Varela-Neira 2017). Transferred to the export context underlying this study, exporters depend on distributors because they are in direct contact with customers. Conversely, distributors depend on exporters and the provision of their brands and products (Vazquez-Casielles, Iglesias, and Varela-Neira 2017). Emerson (1962, p. 32) defines dependence as relying on a partner's contribution to achieving one's own goals. A dependency link occurs when the outcomes of a partnership are superior and, thus, one's goals are more likely to be met by this particular partnership than they would be by any alternative partnership (Anderson and Narus 1990; Emerson 1962; Schmitz, Schweiger, and Daft 2016).

Vazquez-Casielles, Iglesias, and Varela-Neira (2017) argue that dependence can arise from negative and positive motivations. They relate negative motivations (e.g., switching costs) to the development of cost-based dependence, which describes "the need to maintain the relationship due to the expenses it could incur if the relationship ends" (Vazquez-Casielles, Iglesias, and Varela-Neira 2017, p. 1249). Conversely, the authors define benefit-based dependence related to positive motivations as "the need to maintain a relationship because the distributor cannot replace the net benefits that derive from the current relationship" (Scheer et al. 2010; Vazquez-Casielles, Iglesias, and Varela-Neira 2017, p. 1249). Resource dependency theory supports this perspective, since many interorganizational partnerships are beneficial in that involved partners strive to create value for each side of the partnership (Hofer et al. 2012; Johnson and Lacoste 2016; Vazquez-Casielles, Iglesias, and Varela-Neira 2017). For subsequent investigations, the construct distributor dependence reflects the above-described understanding of benefit-based dependence.

4.3.4 Control Mechanisms

Although being two independent sets of instruments, there is usually a mix of incentive and control instruments serving as diverse forms of governance and forming the exporter’s governance portfolio (Gilliland 2003; Heide 1994). Theorists posit that steering the partnership using incentives and resorting to control instruments cannot be selectively sorted into completely independent business processes (Bergen, Dutta, and Walker 1992; Heide 1994). It is assumed that not only incentives but also control instruments are able to alter the motivational context of the distributor (Obadia, Bello, and Gilliland 2015).

Within a large body of literature, the joint use of incentive and control measures is examined, but research has predominantly been conducted from a company’s internal perspective (see e.g., Miao and Evans 2012, 2014; Miao, Evans, and Shaoming 2007). Knowledge concerning the simultaneous use of incentive and control instruments applied in interorganizational contexts is limited. Addressing this topic, Obadia, Bello, and Gilliland (2015) have found that exporter oversight acts as a diminishing moderator on the positive effect of low-powered incentives on relationship quality and transaction-specific investments. This implies that governance through incentives and control activities affects the distributor’s motivation to act in the exporter’s favor (Obadia, Bello, and Gilliland 2015).

4.3.5 Theoretical Positioning of this Study

Based on the considerations discussed above, this study draws on the basic tenets of motivation theory to explain the working mechanisms of social and economic incentives and how they influence the distributor’s active support of the exporter’s undertakings. Introducing aspects of dependency and theoretically linking them to incentive mechanisms may help to gain a more profound understanding of the working mechanisms and the corresponding performance implications of economic incentives.

To the author's best knowledge, Obadia, Bello, and Gilliland (2015) are the only researchers that have examined the interaction of incentive and control measures in the exporter–distributor context. In their approach, "oversight" reflects a mixture of control instruments. However, since past studies have detected divergent impacts (e.g., Aulakh and Gençtürk 2000; Ju et al. 2011; Ju and Gao 2017), the present study distinguishes between process and output control. Investigating the interplay of social and economic incentives and output and process control extends the knowledge that can be obtained from the study conducted by Obadia and colleagues.

4.4 Hypotheses Development

In the following discussion, hypotheses are derived concerning the underlying mechanisms through which social and economic incentives affect the exporter's performance. Hypotheses are formulated that postulate the interplay between incentive mechanisms and control mechanisms and the respective effects on export performance.

4.4.1 Performance Implications of Social and Economic Incentives

Social incentives are characterized as supporting activities and integrative measures performed by the exporter (Storey and Kocabasoglu-Hillmer 2013). Hence, social incentives positively reinforce the capabilities of the distributor and its attitude to the partnership (Geyskens et al. 1999). They help form positive aspirations that make it likely that the distributor would develop a cooperative vision toward the partnership (Kingshott 2006; Zhou, Sheng, and Zhang 2021). Incentives provided by the exporter build shared interests between involved parties, which also enhance cooperation (Murry and Heide 1998; Zhou, Sheng, and Zhang 2021). Export research literature has stressed the positive impact of cooperation. Studies have shown that better cooperation leads to an increase in performance (Obadia, Vida, and Pla-Barber 2017, Pinho 2016).

While social incentives lead to stronger cooperation, they can also contribute to a greater dependency from the distributor. From the distributor's perspective, additional value is created by the exporter providing industry- and product-specific knowledge and supporting the distributor’s activities in the foreign market. The exporter’s socialization efforts are perceived by the distributor as values that are unique to the respective partnership. In line with resource dependency theory, the exporter can contribute to a bilateral beneficial relationship using social incentives, which generate benefit-based dependence by the distributor (Vazquez-Casielles, Iglesias, and Varela-Neira 2017). Moreover, distributor dependence stimulates greater goal and value congruence by the distributor (Scheer et al. 2010), which leads to increased performance (Wang and Zhang 2017). The following hypotheses conclude the arguments considered above:

Hypothesis 1*: Social incentives affect export performance positively through both* ***(a)*** *the distributor's cooperation and* ***(b)*** *the distributor's dependence.*

Economic incentives, which motivate the distributor extrinsically to behave in favor of the exporter, follow the rule of utility maximization (Jap and Anderson 2003). According to motivation theorists, the distributor is motivated to come up with higher levels of effort in the expectation of being adequately compensated (Deci and Ryan 2012). The distributor can maximize their financial outcome through higher sales performance (Amabile et al. 1994). However, several researchers have found that distributors do not always respond to the provision of incentives as expected (Benabou and Tirole 2003; Bouillon et al. 2006). Findings indicate economic incentives can also have a demotivating effect on the distributor's behavior (Ryan and Deci 2000) or encourage unfavorable activity by rewarding the wrong behavior (Baker 2002; Oyer 1998). Due to economic incentives stimulating the pursuit of immediate rewards rather than trusting that efforts made can pay off in the future (Ryan and Deci 2012), the focus shifts from pursuing collaborative goals to prioritizing individual goals. It is assumed that economic incentives are likely to counteract a cooperative partnership.

Mirroring Zhang, Cavusgil, and Roath's (2003) discussion on the occurrence of exporter dependence on the distributor perspective, the distributor's dependence can be fostered if it achieves a better output by cooperating with this specific exporter than by devoting its attention to alternative exporters. A practical means to increase the distributor's financial outcome is providing economic incentives. Unfortunately, in most cases, the exporter's products represent only a small part of the distributor's portfolio and are, therefore, responsible for only a small part of its profits (Rosson and Ford 1982; Terpstra 1972). The exporter can increase the distributor's benefit-based dependence on the particular partnership by increasing the additional financial benefit that the distributor can derive from the partnership (Vazquez-Casielles, Iglesias, and Varela-Neira 2017). Depending on the magnitude of the financial incentive relative to that of other manufacturers in the distributor's portfolio, such incentives may lead the distributor to believe that it cannot compensate for the value generated by the current partnership with that of an alternative partnership (Koul, Sinha, and Mishra 2016). Thus, consistent with resource dependency theory, the exporter can create a reward differential by offering higher economic incentives relative to competing manufacturers in the distributor's portfolio, which reinforces the distributor's benefit-based dependence on the partnership. The above considerations result in the following hypotheses:

Hypothesis 2*: Economic incentives affect export performance* ***(a)*** *negatively through the distributor's cooperation and* ***(b)*** *positively through the distributor's dependence.*

4.4.2 Moderating Effects of Output Control

Motivation theory and the argument presented above on the functionality of social incentives indicate that social incentives primarily stimulate the distributor's internal motivation. Economic incentives and output control promote extrinsic motivation (Falk and Kosfeld 2006; Obadia, Bello, and Gilliland 2015). Output control refers to the exporter's monitoring of the distributor's contract compliance (Anderson and Oliver 1987). The distributor may perceive the exporter's output control as an act of suspiciousness and as an attempt to control the partnership (Gilliland, Bello, and Gundlach 2010). Researchers have pointed out that controlling output can lead to a more solitary attitude on the part of the distributor, which can damage the bond between partners (Aulakh, Kotabe, and Sahay 1996). This diminishes the cooperation-enhancing effect of social incentives, which mainly stems from efforts of integration. It is therefore assumed that the utilization of output control weakens the effect of social incentives on distributor cooperation.

Conversely, economic incentives, as described above, encourage distributors to derive their motivation from the realization of immediate payoffs. In addition to economic incentives, output control contributes to the extrinsic motivational context of the distributor (Boly 2011; Obadia, Bello, and Gilliland 2015). Motivation theorists have emphasized that the degree of active involvement is much lower in extrinsic contexts that are created via economic incentives (Condry and Chambers 1978; Obadia, Bello, and Gilliland 2015) and reinforced by output control. Therefore, output control is likely to further promote purely conforming behavior on the part of the distributor (Ouchi 1979). It is likely to hinder the development of proactive cooperation efforts by distributors that are characterized by active self-involvement and support of the exporter’s agenda (Heide, Wathne, and Rokkan 2007; Zeng et al. 2016). The simultaneous application of output control accentuates the diminishing effect that economic incentives have on distributor cooperation. Based on the argument above, the following hypothesis is proposed:

Hypothesis 3*: Output control* ***(a)*** *dampens the effect of social incentives and* ***(b)*** *strengthens the effect of economic incentives on distributor cooperation.*

4.4.3 Moderating Effects of Process Control

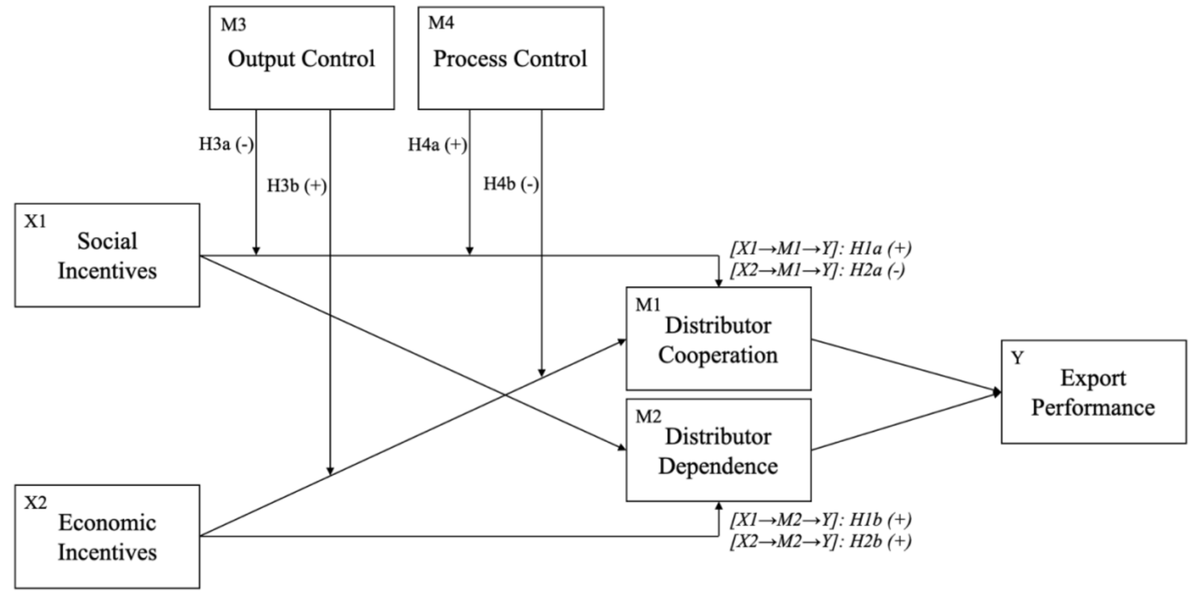
The exporter usually suffers from a lack of knowledge about the foreign market, culture, and social norms (Peng and York 2001; Suwannarat 2016) and therefore cannot evaluate the distributor's marketing behavior (Aulakh and Gençtürk 2000; Bello and Gilliland 1997). Process control in exporter–distributor relationships is rather performed by providing industry- and product-specific skills and ensuring the distributor’s professionalism when serving end customers (Bello and Gilliland 1997; Munro and Beamish 1987). This leads to the distributor perceiving process control as an act of support rather than control.

With process control having a supporting function, corresponding activities, such as offering training and marketing support, allow a sense of integration and familiarity to be nurtured by the distributor. Process control can be allocated to the exporter's idiosyncratic investments, which are defined as investments that are of exclusive value in the specific partnership (Anderson and Weitz 1992). By making idiosyncratic investments, the exporting company demonstrates that it is seeking a robust and durable partnership. This stimulates the distributor's internal motivational context and, therefore, strengthens the positive effect of social incentives on distributor cooperation. Hence, the joint operation of process control and social incentives is expected to be constructive and encourage cooperation.

Conversely, when simultaneously applied with economic incentives, process control counteracts the extrinsic motivational forces generated by economic incentives. Like social incentives, process control is expected to trigger the more internal motivational context of the distributor due to being perceived as support. The joint operation of process control is expected to neutralize the strong extrinsic motivational context that is stimulated by providing economic incentives. The corresponding hypothesis is stated below. All proposed effects are depicted in Figure 5.

Hypothesis 4*: Process control* ***(a)*** *strengthens the effect of social incentives and* ***(b)*** *dampens the effect of economic incentives on distributor cooperation.*

Figure 5 – Structural Model



Note: Indirect effects are written in cursive.

4.5 Method

4.5.1 Procedure

The study focused on small and medium-sized enterprises (SMEs) and was conducted in Germany. According to the *Statistische Bundesamt*, Germany exported goods worth 1,735 billion euros in 2021, with goods exports increasing by around 5.1% annually since 1980 (Bundeszentrale für politische Bildung 2022). Germany was ranked third among the world's largest trading nations in 2020 (Fachverband Werkzeugindustrie e.V. 2022). Small and medium-sized enterprises are essential for the German economy. They account for about 99.6% of all German companies (Institut für Mittelstandsforschung Bonn 2022) and often resort to exporting as part of their internationalization process (Chen and Martin 2001). Expansion into international markets often enables them to increase economic output (He, Brouthers, and Filatotchev 2013). Consequently, 93% of SMEs serve at least the European market (Bundeszentrale für politische Bildung 2022). In 2020, according to calculations by the *Institut für Mittelstandsforschung Bonn* (IfM Bonn), SMEs realized 16.8% of total German export sales (URL3). To strengthen the generalizability of the results and to increase observed variance, a multi-industry sample was used (Morgan et al. 2004).

Taking into account findings from the literature and the knowledge gained during the research for Essay II, a questionnaire was created using EFS survey software from Unipark. The questionnaire was aimed at representatives of companies that employ fewer than 500 people, have a turnover of less than 50 million euros, and are engaged in the export business. These restrictions correspond to the SME definition of the IfM Bonn (2013). Further requirements were that the company is represented in at least one country by an independent distributor and that the respondent is currently or was in the past directly involved in the management of a distribution partnership. Therefore, targeted key informants were managing directors or export managers that were familiar with overall corporate activities and operations between the company and its foreign distributor (Zhang, Cavusgil, and Roath 2003). To minimize the nonresponse rate, each question was programmed as a compulsory question. To prevent order effects, the items were randomized within an item battery and the seven main constructs were randomized within the questionnaire (Strack, Martin, and Schwarz 1988).

To uncover and eliminate incomprehensibility, the general structure of the questionnaire and individual question batteries were first discussed in detail with representatives from the field. Before the questionnaire was released in the field, it was subjected to a pretest, which generated *n*=64 questionnaires. Based on this, final structural and content-related details were adjusted. A link to the finalized questionnaire was submitted to a panel data provider whose panel specializes in business-to-business companies. The panel provider could deliver a large enough potential sample to fit the constraints. The questionnaire was open for response for three weeks until the panel was exhausted. By working with a market research institute, it was assumed that the problem of social desirability was minimized. Those who participated in the discussions or the pretest did not participate in the main study. *N*=307 questionnaires were generated, of which 109 did not meet the participant requirements. Another three were eliminated due to a built-in quality check and an additional six were excluded because the scales were consistently rated with the same answer, which led to unrealistic response durations. Hence, the final sample contained n=189 usable questionnaires.

4.5.2 Measurement

The structure of the questionnaire required the respondents to first provide information about themselves and the company they work for. With the help of an integrated filter function, only those who met the aforementioned criteria were able to continue answering the questionnaire. Following Ju et al. (2011) and Obadia and Vida (2011), all participants who were part of the target group were placed in a scenario where they were asked to answer the following survey based on a partnership with a self-selected distributor.

This introductory part of the questionnaire was followed by the scales of the latent constructs used in the model. Each construct was measured on a seven-point Likert scale, ranging from 1 (strongly disagree) to 7 (strongly agree). *Export performance* was adapted from Morgan, Kaleka, and Katsikeas (2004), as well as Morgan, Katsikeas, and Vorhies (2012). Selected items measured the financial performance of the export venture by incorporating, for example, market share, profitability, and return on investment.

For measuring *social incentives,* items from the scales of Dong, Tse, and Hung (2010) and Obadia, Bello, and Gilliland (2015) were adapted. Economic incentives described the degree to which the distributor was stimulated via monetary compensation. A scale was developed based on Gilliland (2003) concentrating on “immediate incentives to sell” (Gilliland 2003, p. 60).

The mediating construct *distributor cooperation* was adapted from Leonidou et al. (2011) whose scale is based on Sibley and Michie (1982) and Morgan and Hunt (1994). The items were changed from the exporter to the distributor perspective, and thus captured the effort that the distributor undertook to pursue a long-lasting, stable partnership with the exporter. The second mediator *distributor dependence* measured the dependency created by the collaboration on behalf of the distributor. For this purpose, Ganesan’s scale (1994), which measures the dependence of a retailer on a vendor, was adapted to the underlying exporter–distributor context.

To measure the monitoring efforts conducted by the exporter, output and process control scales were adapted from Bello and Gilliland (1997). To incorporate the controlling perspective of output control that was elaborated in Essay II, the adapted scale was supplemented by items that measured the expectation and feedback management concerning previously agreed targets. The process control scale mainly comprised items adapted from Bello and Gilliland (1997) but was further complemented by an item adapted from Gençtürk and Aulakh (2007) that captured the aspect of providing training and seminars to the distributor.

Analysis of the survey results was controlled for several variables that further described the exporting company and the international partnership. First, the number of employees of the exporter was included. Second, the length of the relationship, which refers to “the number of years firms have been dealing with each other” (Cao and Lumineau 2015, p. 21), was considered. Third, the phase of the partnership as a binary variable (young vs. mature partnership) was queried, as suggested by Dong, Tse and Hung (2010). Finally, the results were controlled for the psychic distance of the partners as perceived by the exporter (Leonidou et al. 2011). The operationalization of each construct is shown in Appendix A.

4.5.3 Sample Characteristics

A descriptive analysis of the final data set was performed using IBM SPSS Statistics 28.0.0.0 (190). Companies represented in the sample had an annual turnover of less than 10 million euros and employed fewer than 250 people on average. The sample represented companies from many industries, which can be classified as follows, according to the Standard International Trade Classification: approximately 36% of the companies manufactured mechanical engineering products and vehicles, 16.4% manufactured goods and consumer durables, 14.3% processed goods, and another 7.9% manufactured chemical products. The subjects were 72.5% male and 48.67 years old on average, while the youngest participant was 21 and the oldest was 84 years old. Of the 189 participants, 32.3% are or were general managers, 22.2% were sales department managers, and 16.9% were sales representatives.

The international sales partnerships chosen by the subjects can also be characterized by a few descriptive data. Among the respondents, 23.8% classified the chosen partnership as a young partnership, while the remaining 76.2% had chosen a sales partner with whom there was a long-standing, mature partnership. The average length of the partnerships was 11.22 years. The sample covered partnerships with distributors in 38 countries on all continents. Of the distributors, 38% exclusively sold products from the surveyed company. Among the distributors, 56.6% sold complementary products from other manufacturing companies and 10.6% also offered competitor products in their portfolio.

4.6 Data Analysis and Results

For model evaluation, partial least squares (PLS) structural equation modeling was performed using SmartPLS 3.3.3 software (Ringle, Wende, and Becker 2015). This multivariate analysis technique is convenient for complex structural equation models (Bagozzzi and Yi 1991) studied on the basis of smaller sample sizes between 100 and 250 (Reinartz, Haenlein, and Henseler 2009). Since SmartPLS allows the relationship between the indicators of a model and the constructs themselves to be examined simultaneously (Hair et al. 2016), the first step was to assess the reliability and validity of the constructs examined. In a second step, the direction, magnitude, and statistical significance of the path coefficients were examined. To determine the statistical significance of indicators and path coefficients, analyses were carried out based on 5,000 bootstrap samples (Hair et al. 2016). For reasons of clarity, the final measurement model was divided into three submodels, which were further expanded iteratively. Model I illustrates the direct effects of economic and social incentives on export performance. Model II then examines these relationships for possible mediators to further explain the modes of action of incentive instruments. Finally, Model III investigates the full measurement model by capturing the interaction of incentive and control instruments.

4.6.1 Measurement Model

To assess the reliability and validity of the measurement model, confirmatory factor analysis was performed as part of the SmartPLS software. Since factor loadings of every indicator item were greater than .757, a satisfactory indicator reliability could be assumed (Carmines and Zeller 1979; Chin 1998; Homburg and Baumgartner 1995). Cronbach’s alpha (CA) and composite reliability (CR) were measures used for assessing the internal consistency of a scale, which determined the strength of cohesion between construct items (Krafft et al. 2005). The internal consistency of the considered measurement model can be supported since for each latent construct, CA is higher than .743 (Homburg and Giering 1996) and CR is higher than .851 (Hulland 1999; Homburg and Baumgartner 1995). Thus, the incorporated latent construct scales could be evaluated as highly reliable. The model was tested for convergent validity using the average variance extracted (AVE) from the constructs. Since the AVE is higher than .657 for each construct, the scales indicated high convergent validity (Fornell and Larcker 1981; Hair et al. 2016). Appendix B shows the results of the confirmatory factor analysis, including factor loadings, t-values, and the means of reliability of the measurement model.

To further assess the validity of the measurement model, discriminant validity was measured on the indicator and construct level. At the indicator level, discriminant validity required that each indicator was most highly correlated with the construct with which it was associated (Chin 1998). Thus, cross-loadings should be smaller than loadings on the respective construct. This could be confirmed for each construct. At the construct level, the Fornell-Larcker criterion provided information on whether there was sufficient discriminant validity between the constructs (Fornell and Larcker 1981), which ensured that each construct measures a different matter (Bagozzi and Phillips 1982; Homburg and Klarmann 2006). For this purpose, the squared correlations of the constructs were compared with the AVEs of the respective constructs. The AVEs should always exceed the squared correlations (Chin 1998; Homburg and Giering 1996), which can be confirmed. Results summarized in Table 13 show that the highest squared correlation was .448 while AVE values ranged from .657 to .806.

Table 13 – Average Extracted Variance Values and Squared Construct Correlations

	Social Incentives (1)	Economic Incentives (2)	Distributor Cooperation (3)	Distributor Dependence (4)	Output Control (5)	Process Control (6)	Export Performance (7)
SD	1.423	1.670	.974	1.670	1.430	1.534	1.222
Mean	5.312	4.654	5.959	4.667	5.292	4.914	5.141
(2)	.267						
(3)	.380	.044					
(4)	.203	.132	.086				
(5)	.182	.259	.311	.135			
(6)	.448*	.304	.159	.200	.378		
(7)	.201	.097	.350	.203	.182	.089	
AVE	.687	.657**	.724	.806	.712	.760	.688

Notes: AVE = average variance extracted, *highest squared correlations value, **lowest AVE value.

4.6.2 Results

The proposed model was calculated in a structural equation model. Before testing the hypotheses, the structural model was tested for multicollinearity, which describes the degree of linear dependence between indicators. The variance inflation factor (VIF) indicates the degree of multicollinearity in the underlying model and points out potential problems for parameter estimation (Diamantopoulos and Winklhofer 2001). It describes the degree to which multicollinearity affects the variance in regression coefficients (Gujarati 1995). In the literature, a critical value of 5 is applied (Hair et al. 2016), which is not reached by any indicator in the studied model (the highest calculated VIF was 3.470). Therefore, a sufficiently low degree of multicollinearity can be assumed.

To check for common method bias, two tests were performed. First, the influence of a construct (opinion of productivity in the home office) was examined. This construct was theoretically unrelated to the other constructs under study (Harman 1976). Due to a nonsignificant influence on the dependent variables of the model, a common method bias was considered unlikely. Second, Harman's One-Factor Test was performed. Factor analysis with all study variables showed that the first factor accounted for less than 50% of the variance among variables, which further confirmed that common method bias was not an issue (Podsakoff and Organ 1986).

Table 14 shows the results of the regression and PLS analysis. For reasons of clarity, the effects are discussed in the following sections in a three-step-approach by iteratively evolving the model from Model I (direct effects of incentives), to Model II (mediating effects), and finally, to the complete Model III (interaction effects). As a robustness check, we also estimated the model without the mentioned control variables, with similar results (direction of effects and significant levels remain the same; see Appendix B).

Table 14 – Results of Regression and PLS-SEM Analysis

	Model I		Model II		Model III	
Direct Effects	R^2	β	R^2	β	R^2	β
Effects on Export Performance	.291		.451		.440	
Social Incentives		.220**		-.096 n.s.		-.094 n.s.
Economic Incentives		.131 n.s.		.163**		.162*
Distributor Cooperation				.533***		.530***
Distributor Dependence				.265***		.265***
Effects on Distributor Cooperation			.396		.566	
Social Incentives				.694***		.651***
Economic Incentives				-.149**		-.225***
Effects on Distributor Dependence			.227		.234	
Social Incentives				.358***		.358***
Economic Incentives				.179**		.179**
Specific Indirect Effects						
SOIN → COOP → PERF				.370***		.345***
SOIN → DEP → PERF				.095**		.095**
ECIN → COOP → PERF				-.079**		-.119***
ECIN → DEP → PERF				.047*		.047**
SOINxOCON→ COOP → PERF						-.107***
ECINxOCON→ COOP → PERF						.108***
SOINxPCON→ COOP → PERF						.096**
ECINxPCON→ COOP → PERF						-.029 n.s.
Total Indirect Effects						
SOIN → PERF				.465***		.440***
ECIN → PERF				-.032 n.s.		-.072 n.s.
Total Effects						
SOIN → PERF				.369***		.346***
ECIN → PERF				.131 n.s.		.091 n.s.
Interaction Effects						
SOINxOCON → COOP						-.202***
SOINxPCON → COOP						.180**
ECINxOCON → COOP						.204***
ECINxPCON → COOP						-.052n.s.
Control Variables						
Number of Employees		.049 n.s.		.044 n.s.		.044 n.s.
Relationship Length		.043 n.s.		.034 n.s.		.035 n.s.
Relationship Phase		.041 n.s.		.012 n.s.		.013 n.s.
Psychic Distance		.295***		.004 n.s.		-.002 n.s.

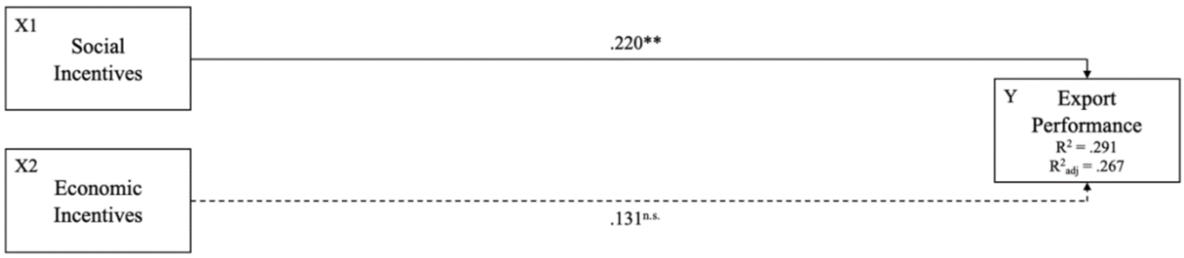
Notes: *** p <.01, ** p <.05, * p <.1, n.s.: the relationship is not significant. ECIN = economic incentives, SOIN = social incentives, OCON = output control, PCON = process control, COOP = distributor cooperation, DEP = distributor dependence, PERF = export performance.

4.6.2.1 Incentives as Drivers of Export Performance

To investigate if incentives affect export performance, in a first step, Model I (Figure 6) was used to examine the direct effects of economic and social incentives on export performance. Incorporating exclusively economic and social incentives into the model, an R^2 value of .291

(R^2_{adj} = .267) was achieved. While the direct effect of social incentives (β = .220, t = 2.212, p < .05) on export performance was positive and highly significant, no significant effect could be detected with economic incentives (β = .131, t = 1.621, p > .10).

Figure 6 – PLS-SEM Results of the Structural Model (Model I)



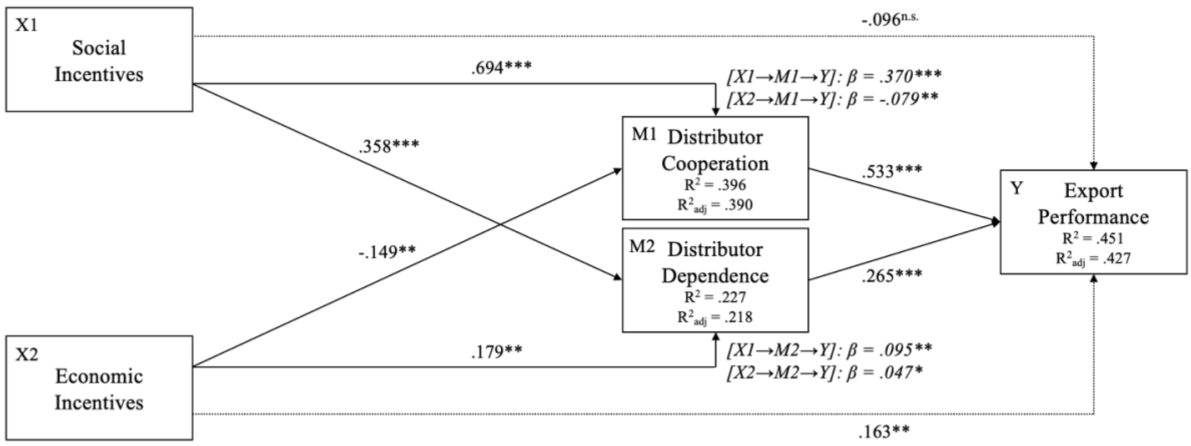
Notes: *** p < .01, ** p < .05, * p < .10, n.s. estimated parameter is insignificant. Dashed lines indicate insignificant paths.

4.6.2.2 Testing the Mediating Effects of Distributor Cooperation and Distributor Dependence

No direct effect of economic incentives and export performance could be detected by testing Model I. It could be assumed that the relationship between incentive systems and export performance was more complex. Model II (Figure 7) was, therefore, tested. As recommended by Hair et al. (2021), in Model II, the indirect effects via distributor cooperation and distributor dependence were investigated simultaneously.

In the case of social incentives, significant positive indirect effects were observed both via distributor cooperation ($\beta_{X1\rightarrow M1\rightarrow Y}$ = .370, t = 4.805, p < .01) and via distributor dependence ($\beta_{X1\rightarrow M2\rightarrow Y}$ = .095, t = 2.433, p < .05). With the indirect effects being significant, this study identifies distributor coordination and distributor dependence serving as mediators between social incentives and export performance (Hayes 2018). The direct effect on export performance was insignificant (β = - .096, t = .880, p > .10) and the total effect, which represents the direct effect of the independent variable on the dependent variable without the influence of mediators, was significantly positive (β = .369, t = 3.736, p < .01). Thus, the findings indicate that distributor cooperation and distributor dependence fully mediate the effect of social incentives on export performance in support of H1a and H1b.

Figure 7 – PLS-SEM Results of the Structural Model (Model II)



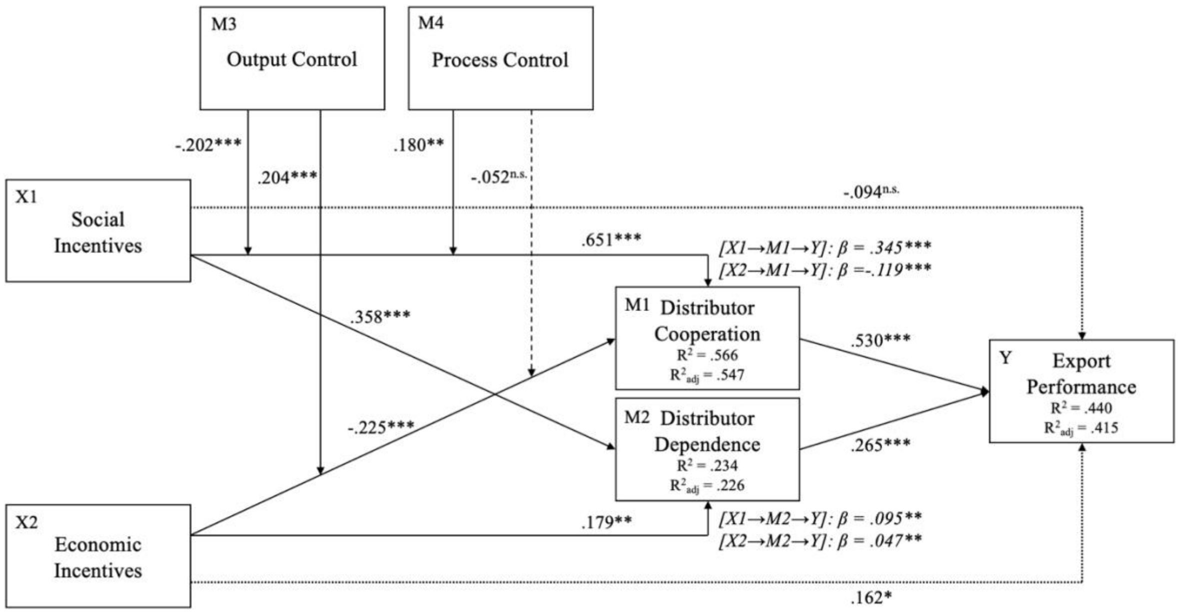
Notes: *** p < .01, ** p < .05, * p < .10, n.s. estimated parameter is insignificant. Dotted lines indicate direct effects in the presence of mediators. Indirect effects are written in cursive.

Regarding economic incentives, a negative indirect effect on export performance was found via distributor cooperation ($\beta_{X2 \rightarrow M1 \rightarrow Y}$ = - .079, t = 2.083, p < .05). The parallel mediation via distributor dependence, however, was significantly positive ($\beta_{X2 \rightarrow M2 \rightarrow Y}$ = .047, t = 1.944, p < .1). The counteracting specific indirect effects suppressed each other. The total indirect effect (refers to the sum of the specific indirect effects; Hair et al. 2021) of economic incentives on export performance was insignificant (β = - .032, t = .7060, p > .10). However, the findings reveal a partial mediation in support of H2a and H2b.

4.6.2.3 Testing the Moderating Effects of Output and Process Control

In a last step, Model III (Figure 8) incorporated output and process control as moderators on the relationships between the two incentive measures and distributor. This allowed for a deeper understanding of the interplay between the various governance strategies. With an R^2 value of .440 (R^2_{adj} = .415), the final model explained a sufficient share of variance in export performance. The findings show that output control mitigates the positive effect of social incentives on distributor cooperation ($\beta_{X1xM3 \rightarrow M1}$ = - .202, t = 2.861, p < .01) and strengthens the negative effect of economic incentives on distributor cooperation ($\beta_{X2xM3 \rightarrow M1}$ = .205, t = 3.025, p < .01). Thus, H3a and H3b can be accepted. Meanwhile, process control significantly strengthens the positive effect of social incentives on distributor cooperation ($\beta_{X1xM4 \rightarrow M1}$ = .181, t = 2.362, p < .05) but insignificantly affects the relationship of economic incentives on distributor cooperation ($\beta_{X2xM4 \rightarrow M1}$ = - .054, t = .702, p > .10). Thus, H4a is supported and H4b must be rejected. Figure 8 illustrates the estimated path coefficients and their corresponding levels of significance.

Figure 8 – PLS-SEM Results of the Structural Model (Model III)



Notes: *** p <.01, ** p <.05, * p <.10, n.s. estimated parameter is insignificant. Dashed lines indicate insignificant paths. Dotted lines indicate direct effects in the presence of mediators. Indirect effects are written in cursive.

4.6.2.4 Discussion of Results

Findings show that the concepts of distributor cooperation and distributor dependence are appropriate approaches for explaining the mode of action of incentive instruments. The effect of social incentives on export performance was strong and positive. It can be explained via distributor cooperation in that they enhance distributor cooperation and distributor dependence by creating additional value (e.g., knowledge, social ties) that is unique to the specific partnership. This ultimately improves export performance.

In contrast, the effect of economic incentives on export performance was also substantially mediated by distributor cooperation and distributor dependence, but the effects offset each other. While the indirect effect explained by distributor dependence was positive, the results reveal a negative indirect effect via distributor cooperation. Thus, the results show that economic incentives dampen distributor cooperation instead of stimulating it. The positive effect of economic incentives can be explained via distributor dependence. By increasing the additional financial benefit that the distributor can derive from the partnership, the distributor has more to lose if the partnership with the exporter terminates, which increases its dependence on the specific exporter. The distinct consequences of economic incentives justify the ambiguous results reported in past research and underline the disagreement about the effectiveness of economic incentives.

Concerning the simultaneous implementation of control instruments, results indicate that the implementation of output control strengthens the negative effect of economic incentives. When simultaneously utilized with social incentives, it mitigates the positive effect that social incentives have on the distributor's cooperation. Thus, the intrinsic motivational context created by social incentives is displaced by extrinsic stimulation, which is counterproductive for establishing distributor cooperation. In support of the findings of Obadia, Bello, and Gilliland (2015), this goes in tandem with the fact that the application of output control reinforces the negative influence of economic incentives on distributor cooperation and, in turn, export performance.

Process control, however, has more constructive outcomes because it strengthens the positive effect of social incentives. Results show that social incentives and process control work in a complementary way. Similar to the application of social incentives, process control stimulates the intrinsic motivation context of the distributor, as it is perceived as support instead of monitoring. However, the results provide no evidence that process control interferes with the provision of economic incentives. Although the sign of the interaction indicates an impeding effect, it is not significant. This may imply that process control is not sufficient to counteract the negative effects of economic incentives. The different modes of action of the investigated governance mechanisms underscore previous findings that each governance mechanism has its own mode of action (Falk and Kosfeld 2006; Obadia, Bello, and Gilliland 2015).

In light of the study's findings, all hypotheses except one are supported based on the data set used. Table 15 provides an overview of the theoretically derived hypotheses and their support in the data set.

Table 15 – Evaluation of Hypotheses

	Theoretically Derived Hypotheses	**Support in the Data**
Hypothesis 1a, b	Social incentives affect export performance positively through both **(a)** the distributor's cooperation and **(b)** the distributor's dependence.	supported
Hypothesis 2a, b	Economic incentives affect export performance **(a)** negatively through the distributor's cooperation and **(b)** positively through the distributor's dependence.	supported
Hypothesis 3a, b	Output control **(a)** dampens the effect of social incentives and **(b)** strengthens the effect of economic incentives on distributor cooperation.	supported
Hypothesis 4a, b	Process control **(a)** strengthens the effect of social incentives and **(b)** dampens the effect of economic incentives on distributor cooperation.	partially supported

4.7 General Discussion

4.7.1 Conclusion

A limited number of studies have addressed the effect of economic (e.g., Dong, Tse, and Hung 2010; Obadia and Stöttinger 2014) and social incentives (e.g., Dong, Tse, and Hung 2010; Obadia, Bello, and Gilliland 2015) on export performance. This study answered a call from Obadia, Bello, and Gilliland (2015, p. 980) to investigate “incentive formats in a variety of international distribution settings.” The purpose of this study was to examine, based on a survey of German SMEs, how the introduction of various incentive schemes, as part of the exporter's governance strategy, affects export performance. Using PLS structural equation modeling, the incentive performance relationship was investigated in a three-step-approach. First, the study investigated the direct effect of social and economic incentives on export performance. Second, distributor cooperation and distributor dependence were incorporated as parallel mediator. Third, output and process control were added to test their moderating effects on the relationship between incentives and distributor cooperation.

The study contributes to export channel research by further enlightening the operating principle of incentive systems for overseas distributor management. Existing literature mostly neglects to investigate the effects of incentives in export relationships with independent partners. This research studies the effects of social and economic incentives in export relationships between German manufacturing companies and their international distributors. This paper sheds light on the ambiguous effects of economic incentives, which have been controversially discussed in the past (Ryan and Deci 2000; Benabou and Tirole 2003; Bouillon et al. 2006). To explain the effects that incentives have on export performance, the author draws on motivation theory and resource dependency theory. Results support the application of motivation theory in this context since the hypothesized effects of social and economic incentives occur as anticipated. In the case of economic incentives, findings advocate the application of resource dependency theory. Providing economic incentives increases the benefit-based dependence of the distributor, which commits the distributor to the exporter due to a higher potential loss if the relationship is terminated. Incorporating the distributor's dependence into the model facilitated a more profound understanding of the working mechanisms and the corresponding performance implications of economic incentives.

The study contributes to governance literature by broadening the understanding of the interplay of incentive and control measures. Since past research on control mechanisms has shown the different modes of action of output and process control (e.g., Aulakh and Gençtürk 2000; Ju et al. 2011; Ju and Gao 2017), this study extends previous findings by measuring output and process control as two separate constructs. This approach enabled a demonstration of the differential effects caused when mixing incentive and control instruments.

4.7.2 Managerial Implications

Investigating the consequences of incentive instruments and incentive–control combinations and how they affect distributor cooperation and ultimately export performance enables the provision of managerial advice on governance strategies for distributor management. First, the findings underscore the different modes of action concerning incentive instruments. Social incentives should be part of any governance strategy because, according to the dataset underlying this study, they lead to highly cooperative behavior among retailers and are a means of promoting cooperation among key stakeholders. The use of social incentives is recommended to align the distributor's goals with the mutual goals of the partnership.

Economic incentives, however, should be used cautiously. Since they can be used to stimulate an immediately needed effort by the distributor, they are particularly useful in the pursuit of short-term milestones. In this case, financial rewards should be closely linked to the targeted key performance indicators. If, for example, the aim is to introduce a new product to the market, receiving a bonus could depend on the sales volume of this specific product.

However, to develop a partnership with a long-term perspective, solely relying on economic incentives can be detrimental.

Nevertheless, the results show economic incentives can also have a positive effect. Extrinsic incentives can create a financial surplus that the distributor can achieve with the focal exporter compared to competing manufacturers. This creates dependence by the distributor, which fosters the distributor's attention and effort concentrated on marketing the manufacturer's products, since they achieve the greatest financial reward by supporting this distributor. If the company can offer targeted financial incentives that are superior from the distributor’s perspective, an opportunity is provided to make itself competitive in the distributor's portfolio and compete against other manufacturers vying for the distributor's attention. In negotiations with the distributor, benchmarking should be carried out to allow an assessment of the current position of the exporter in comparison to its competitors.

When considering the interaction of incentive and control instruments, distinct recommendations for action can also be made. Based on the findings, it can be recommended that managers from the exporting company should be very careful with measures that are attributable to output control. Since output control cannot be completely omitted for reasons of goal orientation, control figures and targeted benchmarks should be thoroughly negotiated with the partner to counteract the perceived level of intrusion output control might have from the distributor’s perspective. In these negotiations, the partner should be trusted to assess market potential and future achievable goals, since—assuming it has been well selected—it is familiar with market conditions.

In view of the results, governance strategies combining social incentives with elements of process control are recommended for shaping a strong and successful partnership. It is advisable to ensure the quality and professionalism of the distributor in the end-customer business by heavily relying on activities that reinforce the distributor's capabilities. As a measure of process control, sufficient service support in end-customer contact should be guaranteed. Depending on the financial and human resources available to the exporting company, on-site service support could be provided by an employee dispatched by the manufacturer. Alternatively, depending on the specific product, training on maintenance and support could be offered either in person or via video calls. This enables the distributor to build up specialized knowledge and provide services, such as the maintenance of a product itself. Combined with social incentives, this emphasizes a feeling of cohesion and promotes socialization with the distributor.

4.7.3 Further Research

Certain implications for further research can be derived from this study. While this study focuses only on German exporting SMEs, future research projects should conduct further country studies to make more generalizable statements in the long term. The present study and most prior studies (see also Essay I) have focused on the exporter. To better understand the motives for certain actions by the distributor, future research should focus primarily on investigations from the distributor's perspective or choose dyadic settings. In past studies, research settings have been chosen in which distributors (e.g., Skarmeas, Zeriti, and Argouslidis 2019; Skarmeas, Zeriti, and Baltas 2016) or dyads (e.g., Obadia and Stöttinger 2014) have formed the sample. Investigation of the effect of incentive systems and the interplay with other governance methods have been omitted to date.

Expanding on the note by Obadia, Bello, and Gilliland (2015), future approaches need to address the different levels of formal integration that characterize export relationships. As this study has focused on relationships with autonomous distributors, a focus on other forms of partnership (e.g., agents or subsidiaries) would contribute to the export research stream. This would provide further insights into the effects of incentive and control portfolios when applied to various relationship structures, distributions of power, and interdependencies.

Future research should concentrate on testing for other potential mediators that explain the incentive–performance relationship. Possible mediators could be constructs that express the distributor's attitude toward the exporter, such as distributor identification with or adaptation to the exporting company. Also, the transactional versus relational orientation of the distributor could hold a mediating function.

Another promising research avenue might be the interaction of incentives with other forms of governance, such as relational governance, as these are also commonly implemented to steer export relationships. This would allow for providing more consolidated and all-inclusive recommendations for actions. This would also be an approach to fully evaluate the assets and drawbacks of different governance portfolios for the exporter–distributor context.

Finally, no studies and statistics could be found that show the frequency of the use of distributors in the export business in figures. To the best of the author's knowledge, figures that establish a relationship between indirect and direct export channels and highlight the relevance of the various export alternatives have not been compiled. This could be an exciting opening for further research projects.

4.7.4 Limitations

This study also comes with several limitations. While the data was tested for common method bias using scientifically recognized methods (i.e., inclusion of theoretically unrelated constructs; Harman 1976; Harman's One-Factor Test; Podsakoff and Organ 1986), the potential occurrence of common method bias was unlikely but could not be completely excluded. Endogeneity caused by reversed causality between considered constructs could not be ruled out, although it was not apparent from logical considerations. The same holds for the omitted variable bias. However, the three-step approach for model evaluation (see Table 3) as well as the robustness check conducted by excluding control variables (see Appendix A) indicate resilient results.

The sample is not representative, as it has only a national character due to the exclusive observation of German exporters. A transfer of the results to exporter–distributor relationships of other international constellations should be carried out with caution due to varying exporter and partnership characteristics (e.g., level of development of the exporting country, psychological and cultural distance between partners). Furthermore, data collection was conducted with the help of a panel data provider, which enables access to preselected groups and increases sample homogeneity (here, e.g., subjects represent SMEs, subjects in leading positions in marketing and sales). Panel data increases the risk of lower data quality. Since the subjects are paid by the panel provider per completed questionnaire, this can lead to the questionnaires being filled out improperly. Finally, the main dependent variable export performance was not measured objectively, but as a subjective assessment of the queried subject. Other distortions may occur due to social desirability bias and an incorrect self-assessment of the respondent.

5 Conclusion

The focus of this dissertation is investigating how exporting firms manage their partnerships with independent cross-border distributors. The three essays in this dissertation answer several questions regarding the applicability of various governance measures to steer the distributor to ensure a mutually successful export venture.

Through a systematic literature review, Essay I compiles academic articles published during the past 25 years that empirically examine the consequences of using governance mechanisms in exporter-distributor relationships. For the four research domains of contractual governance, monitoring mechanisms, relational governance, and incentive mechanisms, the findings from the literature are summarized, research gaps are identified, and pathways for further research are provided.

Using a qualitative research approach, Essay II extends the knowledge of governance practices commonly used by SMEs to manage their international distributors and provides an updated perspective. The study contributes to the literature on distributor governance by examining SMEs. In addition, this study furthers existing research by developing a classification scheme that provides an overview of the control measures. The results contribute to motivation research on distributor governance by identifying incentive mechanisms that encourage distributors to invest time and effort in marketing the exporter's products. Despite the focus on SMEs, the study results add to the body of knowledge on incentive systems in cross-border interorganizational relationships, as empirical evidence in this area has been lacking.

Essay III demonstrates that social and economic incentives, explained via distributor cooperation and dependence, significantly influence export performance. The results demonstrate that social incentives positively influence distributor cooperation and dependence. Furthermore, the effects of various incentive–control combinations were investigated using a sample of 189 German exporters. The findings reveal that output control weakens the positive effect of social incentives and reinforces the negative effect of economic incentives on distributor cooperation. However, process control supports the positive effect social incentives have on distributor cooperation but cannot counteract the negative effect of economic incentives. The results suggest that governance strategies should primarily consist of the socialization of distributors and support activities, whereas financial incentives and output monitoring should be well-targeted and used cautiously.

Especially Essays II and III, which empirically examine the applicability of various governance mechanisms, provide managerial advice. For the findings in Essay II, recommendations for action are made for each of the eight identified governance measures. Advice includes, for example, that the exporting company should stipulate terms and conditions for the alliance. Part of these standard terms and conditions could determine the legal basis for future business transactions, price ranges, and discount patterns. For monitoring measures, it is advisable to establish a reporting system and provide specialized training to ensure distributor professionalism. Although economic incentives should be targeted to specific key performance indices, social incentives can be provided via acts of recognition (e.g., annual partner events and award ceremonies) executed by the exporting company.

Essay III supplements these recommendations for action with recommendations regarding various incentive-control combinations. The company executives can be advised to be very careful with measures that can be attributed to output control because they reinforce the negative effects of economic incentives and disrupt cooperation-promoting effects through social incentives. Output control cannot be dispensed entirely due to the goal orientation; thus, control figures and target benchmarks should be thoroughly negotiated with the distributor to counteract the intrusiveness of output control that may be perceived from the distributor's viewpoint. Conversely, governance strategies that combine social incentives with process control elements are recommended to create a solid and successful partnership. As one measure of process governance, sufficient service assistance should be provided in end-customer contact. Depending on the financial and human resources of the exporting company, on-site service support could be supplied by an employee dispatched by the manufacturer. Combined with social incentives, this approach emphasizes a sense of belonging and promotes socialization with the distributor.

Future research should focus on various levels of formal integration that characterize export relationships. This study focused on relationships with autonomous distributors; therefore, a focus on other forms of partnership (e.g., agents or subsidiaries) would contribute to the export research stream. Since this study focuses on German export SMEs, future research projects should conduct further studies in additional countries to make more generalizable statements. The present study and most prior studies (see also Essay I) have focused on the exporter. To better understand the motives for specific actions by the distributor, future research should primarily focus on investigations from the distributor's perspective or choose dyadic settings. Another promising research avenue is the interaction of incentives with other governance forms, such as relational governance, because these are also regularly implemented to steer export relationships. This approach would also thoroughly evaluate the benefits and drawbacks of diverse governance portfolios for the exporter–distributor context.

III. Appendix

Appendix A: Construct Items, Loadings, and Reliability

Constructs and Items	Loadings	t-value	CAs	CRs	AVE
Social Incentives					
Adapted from Obadia, Bello, and Gilliland (2015) and Dong, Tse, and Hung (2010)			.848	.898	.687
We offer our distributor support during market cultivation.	.829	23.664			
We offer to accompany the distributor to important customer visits.	.829	30.006			
We involve the distributor in decisions that could affect the cooperation	.798	21.523			
We see and treat the distributor as an extended arm of our company.	.860	38.285			
Economic Incentives					
Adapted from Gilliland (2003)			.743	.851	.657
The distributor receives a bonus if he achieves certain milestones in sales.	.798	17.480			
We motivate the distributor with the help of financial incentives.	.766	12.333			
We provide financial incentives in order to increase the selling effort of our product.	.870	31.331			
Distributor Cooperation					
Adapted from Leonidou et al. (2011)			.905	.929	.724
The distributor strives to maintain a long-term business relationship with us.	.825	23.208			
The distributor helps to ensure smooth processes.	.878	35.619			
The distributor makes every effort to promote the joint success of both companies through its actions.	.875	35.747			
The distributor supports us in achieving our sales goals.	.870	35.426			
The distributor is willing to cooperate in resolving prevalent issues in the business relationship.	.806	25.220			
Distributor Dependence					
Adapted from Ganesan (1994)			.897	.926	.806
The distributor is very dependent on us.	.903	57.793			
It would be difficult for the distributor to replace the sales and profit our products generate.	.930	93.122			
Switching to another business partner would entail high costs for the distributor.	.859	31.059			
Output Control					
Adapted from Bello and Gilliland (1997)			.920	.937	.712
We monitor the market success of our products in the target market.	.835	36.409			
We monitor whether the distributor manages to increase its customer base.	.873	30.625			

We regularly analyze the development of our market share.	.870	38.217			
We regularly review whether the distributor is achieving previously agreed sales volumes.	.757	14.312			
We provide regular feedback to the distributor on whether previously agreed targets are being achieved.	.871	37.177			
We share our expectations of sales targets with the distributor.	.852	26.728			
Process Control *Adapted from Bello and Gilliland (1997) and Gençtürk and Aulakh (2007)*			.894	.927	.760
We are informed about the advertising efforts of our distribution partner.	.893	45.477			
We support the distributor in the market launch of new products.	.869	33.256			
We have influence on the distributor's distribution strategies and processes.	.883	43.835			
To ensure the capabilities of our distributor, we provide mandatory seminars and training.	.841	25.307			
Export Performance *Adapted from Morgan, Kaleka, and Katsikeas (2004) and Morgan, Katsikeas, and Vorhies (2012)*			.848	.898	.688
We have reached our export venture financial goals.	.890	50.638			
We have managed to significantly strengthen our market share through this distributor.	.836	30.835			
Compared to our competitors in the host market we generate excellent return on investments.	.792	19.372			
Compared to our competitors in the host market our company generates great profits.	.795	18.843			
Control Variables					
Number of Employees					
Relationship Length *Adopted from Cao and Lumineau (2015)*					
Relationship Phase *Adapted from Dong, Tse, and Hung (2010)*					
Psychic Distance *Adapted from Leonidou et al. (2011)*			.871	.920	.794
The distributor is familiar with our corporate culture. (r)	.896	47.281			
The distributor understands German values and attitudes. (r)	.863	24.793			
The distributor is familiar with our working methods and processes. (r)	.914	55.809			

Notes: CA = Cronbach's Alpha; CR = Construct Reliability; AVE = Average Variance Extracted.

Appendix B: Robustness Check

	Model I		Model II		Model III	
Direct Effects	R^2	β	R^2	β	R^2	β
Effects on Export Performance	.216		.447		.446	
Social Incentives		.394**		-.074 n.s.		-.072 n.s.
Economic Incentives		.117 n.s.		.138*		.138*
Distributor Cooperation				.527***		.525***
Distributor Dependence				.278***		.278***
Effects on Distributor Cooperation			.396		.566	
Social Incentives				.693***		.651***
Economic Incentives				-.149**		-.225***
Effects on Distributor Dependence			.226		.226	
Social Incentives				.358***		.358***
Economic Incentives				.179**		.179**
Specific Indirect Effects						
SOIN → COOP → PERF				.365***		.342***
SOIN → DEP → PERF				.099**		.099**
ECIN → COOP → PERF				-.079**		-.118***
ECIN → DEP → PERF				.049**		.050**
SOINxOCON→ COOP → PERF						-.106**
ECINxOCON→ COOP → PERF						.108***
SOINxPCON→ COOP → PERF						.095**
ECINxPCON→ COOP → PERF						-.028 n.s.
Total Indirect Effects						
SOIN → PERF				.465***		.441***
ECIN → PERF				-.029 n.s.		-.068 n.s.
Total Effects						
SOIN → PERF				.391***		.369***
ECIN → PERF				.109 n.s.		.070 n.s.
Interaction Effects						
SOINxOCON → COOP						-.202***
SOINxPCON → COOP						.181**
ECINxOCON → COOP						.205***
ECINxPCON → COOP						-.054n.s.

Notes: *** p <.01, ** p <.05, * p <.1, n.s.: the relationship is not significant.

ECIN = economic incentives, SOIN = social incentives, OCON = output control, PCON = process control, COOP = distributor cooperation, DEP = distributor dependence, PERF = export performance.

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