

Importer-Exporter Relationship Intention – A Signaling Approach

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Abstract

Realizing that export markets are characterized by asymmetric information and that little research has been devoted to the investigation of the role of signals in exporter-importer relationships, this study examines the impact of signal clarity and consistency on exporter credibility and subsequently, importer relationship intention. Under the condition of asymmetric information, an importing firm will be confronted with a problem of distinguishing between high- and low- quality exporting firms. Also, an exporting firm will face difficulties in positioning itself against low-quality exporters in the mind of its importer. Under such a condition, the exporting firm can use signals to demonstrate its ability to meet the requirements of the importer, its intention to build a long-term relationship with the importing firm, and to differentiate it from other exporters, i.e., to influence the importer's relationship intention, and to help the importer to distinguish it from lower quality exporters. Hence, it is important that the exporter's signaling scenarios should not be imitated by less qualified exporters. The exporter may use a number of marketing signals such as product quality, price, warranties, advertising, and brand names. In exporter-importer relationships, asymmetric information creates much higher risks to the importer. Examples of these risks can be unjustifiable delay in product delivery, misrepresentation of the true characteristics of product, quality cheating, contract default, and failure to acknowledge warranties. Clear and consistent signals sent by the exporting firm will lower its importer's perceived risks associated with engaging in the relationship, as well as information gathering and processing costs when making decisions, leading to greater perceived credibility of the exporter by the importer. The exporter's credibility reduces the importer's perception of risks associated with opportunistic behavior by the exporter and increases the importer's confidence that the exporter will sacrifice short-term inequities for long-term benefits. Further, it reduces the transaction cost incurred in relationships, leading to a willingness to build the relationship with the exporter by the importer.

Key words: Importer-exporter relationship, signaling theory

Introduction

Marketing scholars and practitioners have recognized the importance of developing and nurturing relationships with customers (e.g., Dwyer, Schurr, and Oh 1987) and have concluded that long-term relationships can benefit both buyers and suppliers. The benefits of a relationship can only be achieved if both parties are willing to commit to the relationship, however, in some cases, customers are not particularly interested in building a relationship and may actively avoid relationship building efforts (Blois 2002; Sheth and Shah 2003). The reasons why customers are reluctant to build relationships are largely ignored by researchers (Noble and Phillips 2004). Consequently, in the context of importer-exporter relationships, an understanding of the factors that drive the willingness to form such relationships by importers is crucial to exporters.

Suppliers know the quality of their products better than their buyers which is characterized by the asymmetry of information (Spence 1974). Therefore, it is not an easy task for buyers to accurately evaluate the products and services supplied prior to purchase. The inability to assess the quality of the exporting firm will create two problems – adverse selection and moral hazard (Mishra, Heide, and Cort 1998). The adverse selection problem involves certain fixed characteristics of the exporting firm that have the potential to influence the level of quality delivered but that are unobservable to the importing firm. The moral hazard problem relates to the ability and motivation of the exporting firm to cheat the importing firm, such as to change the levels of quality provided for each transaction (Mishra, Heide, and Cort 1998). This necessitates that suppliers use signals to inform their buyers about the quality of their products and services, and signaling theory is useful in this regard (Kirmani and Rao 2000).

Signaling theory, which is derived from the information economics literature under the condition of asymmetric information (Spence 1974), has been widely applied in research in marketing such as in studies of brand equity (Erdem and Swait 1998), warranties, product quality (e.g., Boulding and Kirmani 1993; Rao, Qu, and Ruekert 1999), price (e.g., Simester 1995; Srivastava and Lurie 2004), and advertising (e.g., Caves and Greene 1996; Kirmani and Wright 1989). However, little research has been devoted to exploring the usefulness of signaling theory in importer-exporter relationships. To bridge this gap, this paper employs signaling theory to examine factors that affect relationship intention between importers and exporters. Specifically, it explores the impacts of signal clarity and consistency on exporter credibility, and subsequently, importer relationship intention. The paper is organized around the following key points: signaling theory and its applications in marketing; signaling in the importer-exporter context; the method to be employed; and, expected contributions.

Signaling Theory in Marketing

Signaling theory suggests that, under the condition of information asymmetry, signals can be employed to distinguish high quality sellers from low quality sellers (Kirmani and Rao 2000). Signals are defined as “activities or attributes of individuals in a market which alter the beliefs of, or convey information to, other individuals in the market” (Spence 1974, p.1), and are used to “provide a direct or indirect indication of sender’s intentions, motives or goals” (Porter 1980, p. 75). In marketing, Herbig and Milewicz (1996, p. 35) define a marketing signal as “a marketing activity which provides information beyond the activity itself and which reveals insights into the unobservable”. Earlier works on signaling, based on the assumption that only firms who are confident in their high quality products would spend more on advertising, analyze the role of advertising expenses as a signal of product quality (e.g., Nelson 1970; Schmalensee 1978). Therefore, high advertising expenditure is used as a signal of high quality products and brands. Other marketing mix elements have also been widely studied such as: warranties as a credible signal of product quality (Boulding and Kirmani 1993); firm’s reputation (Shapiro 1982); brand equity (Erdem and Swait 1998); word-of-mouth communication (Kennedy 1994); and, price promotion (Raghubir and Corfman 1995).

Signaling applications have also been found in the business-to-business context. In manufacturer-retailer relationships, Desai (2000) found that manufacturers use advertising support and allowances as signals of high demand for manufacturers’ products. By increasing advertising support, the manufacturer credibly signals the retailer that there is high demand for its products. Manufacturers also signal high demand for

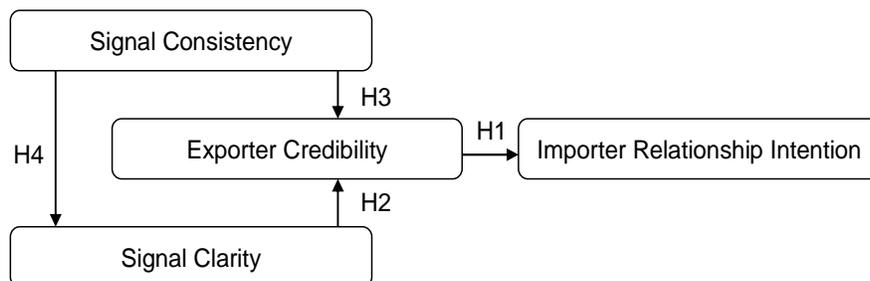
their products by increasing the wholesale price and advertising (Chu 1992). Desai and Srinivasan (1995) studied a signaling process in franchiser-franchisee relationships and found that a high-demand franchiser signals its demand by increasing the royalty and decreasing the franchise fee. Worsham and Gatrell (2005) investigated the effect of signals in principal-agent relationships and suggest that communication in such relationships resembles a signaling process in which potential principals show their interest in policy matters through multiple avenues. In sum, signals have been recognized to be essentially unique strategic communication tools used by marketers to bridge an undesirable communication gap where information asymmetry exists (Koku 1995).

Signal interpretation and reactions are determined by a signal's characteristics – clarity and consistency – sent by signalers (Heil and Robertson 1991). Early recognition of the importance of signal characteristics is found in communication research (Shannon and Weaver 1949), and in international relations research (Jervis 1970). In business, the early studies of signal clarity and signal consistency are found in competition analysis (Heil and Robertson 1991). Signal consistency and clarity are argued to be important characteristics that determine signal interpretation (Heil and Robertson 1991). They are found to have positive effects on consumers' perceived product quality, to reduce perceived risk, and to increase information cost saving (Erdem and Swait 1998). However, little attention has been paid to the influence of signal clarity and consistency on receivers' intention and behavior, particularly in exporter-importer relationships, where asymmetric information problems are more serious (Samiee 2000). In exporter-importer relationships, asymmetric information creates much higher risks to importers. Examples of these risks can be unjustifiable delay in product delivery, misrepresentation of the true characteristics of the product, quality cheating, contract default, and failure to acknowledge warranties (Mishra, Heide, and Cort 1998).

Signaling in the Importer-Exporter Context: a Conceptual Model

It can be argued that information asymmetry exists in the importer-exporter relationship. Information economics theory posits that information is asymmetric if: (1) buyers and sellers could not know with certainty all information about factors which influence their exchange; or (2), one party has information that others do not have (Phlips 1988); or (3), there is uncertainty about the actual behavior of the parties involved in the exchange (Milgrom and Roberts 1986). In importer-exporter relationships, both importers and exporters cannot estimate with certainty all factors which influence the relationships as well as actual intentions and behavior of others. Importers know more about their payment ability, product requirements, and intentions to build long-term relationships with exporters. Exporters know more about their capability, product quality, price competitiveness, ability to deliver in time, flexibility in managing the relationship with the importers, ability to assist importers, and their intention to engage in a relationship. With the aim of enhancing our understanding of signaling in the context of exporter-importer relationships, this study investigates importers' reactions to exporters' signals, and proposes that the clarity and consistency of an exporter's signal underlie the exporter's credibility as perceived by its importer, and, subsequently, the importer's intention to build a long-term relationship with the exporter. Figure 1 shows these relationships.

Figure 1: Conceptual Model



Relationship Intention

There is no consensus in the literature in defining relationship intention or relationship orientation. Sheth and Shah (2003) introduce the term “customer preference” for relational exchange versus transactional exchange in buyer-seller relationships. Pillai and Sharma (2003) utilize the construct of “relational orientation” which is defined as “the propensity to engage in relational behaviors”. Kim and Cha (2002) refer to relational orientation as “a behavioral tendency to cultivate the buyer–seller relationship and see to its maintenance and growth”. The underlying theme among these definitions is the tendency, or intention, or orientation, to develop a relationship with a specific partner. Among these definitions, Kumar, Bohling, and Ladda (2003, p. 668) provide a clear and simple definition of relationship intention: “the importer’s intention and willingness to develop a long-term relationship with a specific exporter”.

Industrial buyers will optimize their decision choices within a bound of rationality (Liang and Parkhe 1997). Beyond that bound, importers intend to choose a more simplified decision process. They tend to “rely on information that is easily recalled and readily accessible, such as vendor reputation, country of origin, or word-of-mouth recommendations” (Liang and Parkhe 1997, p. 513). Therefore, it is reasonable to argue that an importer evaluates both an exporter’s signals and how the exporter sends signals in order to judge, compare, and select a long-term exporting partner. Based on the exporter’s signal, the importer can evaluate the exporter’s ability to meet its requirements (competency), the exporter’s trustworthiness, the exporter’s intention to build a long-term relationship, as well as the exporter’s product quality and customer services. Aside from product quality signals, which are often assumed to inform buyers before purchasing (e.g., Erdem and Swait 1998; Milgrom and Roberts 1986), exporters’ signals are assumed to be sent continuously i.e. both before and after purchase. In export markets which are characterized by asymmetric information, exporters face difficulties in distinguishing themselves from less-qualified exporters, whilst importers have difficulties in differentiating between high- and low-qualification providers (Mishra, Heide, and Cort 1998). Therefore, in order to persuade importers that they are the best qualified for selection, exporters should send signals to show their capability to meet importers’ requirements, to address their intention to build long-term relationship with potential importers, and to distinguish themselves from less-qualified exporters.

Exporter Credibility

Several definitions of credibility can be found in the literature on relationship marketing. In general, credibility refers to the belief or confidence about an exchange partner’s trustworthiness that results from the partner’s expertise, reliability or intentionality (Anderson and Weitz 1989). Credibility reflects the extent to which relationship partners are believed to stand by their word (Ganesan 1994; Morgan and Hunt 1994), and to make promises with the intention and ability to fulfill the relationship (Moorman, Deshpande, and Zaltman 1993). In studies of signaling in communication, source credibility (of an individual) has been commonly viewed as consisting of expertise and trustworthiness (Pornpitakpan 2004). Expertise (or competence) refers to the extent to which an exporter is perceived to be knowledgeable and to be capable of fulfilling obligations (Erdem, Swait, and Louviere 2002). To be perceived as trustworthy, the exporter must show a willingness or intention to deliver what was promised (Erdem, Swait, and Louviere 2002).

A signal sender’s credibility becomes especially critical when information asymmetry exists. Under such a condition, the response and reaction to a signal is strongly influenced by the source’s credibility (Herbig and Milewicz 1996). In the exporter-importer relationship, information asymmetry creates much higher risks to importers. Exporter credibility reduces importers’ perceived risks associated with their engagement in relationships with exporters, and reduces information gathering and processing costs that importers need to incur during decision making (Srinivasan and Ratchford 1991). Therefore, credible signals help to ensure exporters’ obligation fulfillment and assists in reducing importers’ fears of the risk caused by imperfect information. Regarding the effect of source credibility on the signaling process in communication research, researchers assert that highly credible sources communicate better. The more credible the source is, the higher is its persuasiveness (Krapfel 1985). Credible sources have stronger effects on signal interpretation and on quality perception by signal receivers.

Exporters who are perceived as trustworthy, are believed to have the ability and intention to deliver what they promise. Hence, it would be reasonable to argue that a trustworthy and capable exporter is preferred as a long-term supplier rather than an untrustworthy and less capable exporter. According to Ganesan (1994), an exporter's credibility can affect an importer's relationship intention in three ways: (1) it reduces the importer's perception of risks associated with opportunistic behaviors by the exporter; (2) it increases the importer's confidence that the exporter will sacrifice short-term inequities for long-term benefits; and, (3) it reduces the transaction cost incurred in the exchange relationship. Under conditions of imperfect information and high degree of uncertainty, the benefits of exporter credibility become most apparent in persuading importers (Moorman, Deshpande, and Zaltman 1993). The literature on source credibility indicates that highly credible sources produce more positive attitudes towards the signaler than do sources having less credibility (Ponpitakpan 2004). Studies related to firm credibility also demonstrate that highly credible firms attract more intention and loyalty from their customers than do firms with lower credibility (e.g., Anderson and Weitz 1989; Ganesan 1994; Goldsmith, Lafferty, Newell 2000).

Signal Clarity

A clear signal must be unambiguous, have a known cause, and can be read quickly with minimum effort and error (Jervis 1970). Erdem and Swait (1998, p. 137) define signal clarity as "the absence of ambiguity in the information conveyed by the brand's past and present marketing mix strategies and associated activities". In this study signal clarity refers to the absence of ambiguity in past and present signals sent by the exporter. The signal interpretation process by receiving firms depends significantly on the clarity of signal. Signal clarity determines the accuracy of signal interpretation and reaction. It affects the framing of an action, reduces the chance of a misunderstanding, reduces signal bluffing and increases the speed of reaction (Erdem and Swait 1998). A signal will be effective only if it is clear. Ambiguous signals are often ignored or discarded by the receivers (Herbig and Milewicz 1996). In their study of the impact of marketing signals on strategic decision making, Herbig and Milewicz (1995) empirically confirm that an unclear, ambiguous or random signal will be discarded by the receiver and will not influence the receiver's decision. Brucato and Smith (1997), in their study of dividend as a signal, find that accuracy of past news releases by firm management is important in the market's evaluation of new information.

Inter-organizational relationships across borders and cultures complicate information interpretation and understanding (Marshall and Boush 2001). In importer-exporter relationships, cultural differences and language barriers magnify the difficulties in communication, information interpretation and sharing. Psychic distance also increases the cost of acquiring information (Marshall and WoonBong 2003). Therefore, exporters should be much clearer in communicating their messages. Sending a clear signal will facilitate the signaling process and assist importers in understanding the exact meaning of the signal. Signals can be interpreted differently by different receivers, therefore, sending a clear message is essential to ensure that importers' interpretation is the same as exporters' signaling intention. Clear signals also reduce noise in the signaling process. A random, ambiguous, or irrelevant signal will have an adverse effect on the source's credibility, leading to a negative effect on the sender's reputation and credibility (Herbig and Milewicz 1995).

Signal Consistency

The importance of signal consistency in market signaling has been confirmed in the literature (e.g., Brucato and Smith 1997). Signal consistency is defined as "the degree to which each marketing mix component or decision reflects the intended whole" (Erdem and Swait 1998, 137). Signals are not only required to be consistent with each other in their delivered message (meaning or content), but also have to be consistent over time (Erdem and Swait 1998). A firm's credibility will increase when its behavior is consistent with promises and its market signals are consistently followed. The firm will lose its credibility if it repeatedly fails to fulfill what it signals to the market (Heil and Robertson 1991). In the importer-exporter context, signal consistency is an effective tool to distinguish high-quality exporters from low-quality exporters. The difference in business environments will widen the asymmetry and imperfection of information, creating more noise and uncertainty (Samiee 2000). Consistent signals will lessen the asymmetry. From the importer's perspective, judging the consistency of a signal is a means of evaluating an exporter's credibility (Milewicz and Herbig 1994). A high degree of signal consistency also reduces

noise during the signaling process and creates a low variance estimate of exporters' future actions. This enables exporters to more precisely present their capabilities and competence which guarantee exporters' future actions and prevent opportunistic behavior (Heil and Robertson 1991). Hence, failure to deliver consistent signals over time will reduce exporter credibility.

Hypotheses

In summary, under such a condition of asymmetric information, an importing firm will be confronted with a problem of distinguishing between high- and low- quality exporting firms. Also, an exporting firm will face difficulties in positioning itself against low-quality exporters in the mind of its importer (Mishra, Heide, and Cort 1998). Under such a condition, the exporting firm can use signals to show its ability to meet the requirements of the importer, its intention to build a long term relationship with the importing firm, and to differentiate it from other exporters, i.e., to influence the importer's relationship intention, and to help the importer to distinguish it from lower quality exporters. Hence, it is important that the exporter's signaling scenarios should not be imitated by less qualified exporters (Koku 1995). The exporters may use a number of marketing signals such as product quality, price, warranties, advertising, brand names (e.g., Boulding and Kirmani 1993; Rao and Ruekert 1994).

Signal interpretation and reaction are affected by signal characteristics—clarity and consistency (Erdem and Swait 1998; Heil and Robertson 1991). Signal clarity assists the importer to easily identify what the exporting firm would like to inform its importers about, such as its product's attributes and position. To make a signal clear, every marketing-mix signal should be consistent (i.e., reflecting the same attributes, objectives, position), and stable over time. Therefore, signal consistency is essential to signal clarity. In addition, signaling theory suggests that most rational firms are unlikely to send false signals if the signals increase costs in terms of immediate profits, future profits, and reputation (Tirole 1988). As a result, signal clarity and consistency are vital to the exporter's credibility because importers may believe that only quality exporters would send clear and consistent signals to their customers.

In exporter-importer relationships, asymmetric information creates much higher risks to importers. Examples of these risks can be unjustifiable delay in product delivery, misrepresentation of the true characteristics of the product, quality cheating, contract default, and failure to acknowledge warranties (Mishra, Heide, and Cort 1998). Clear and consistent signals sent by an exporting firm will lower its importer's perceived risks associated with engaging in the relationship, as well as information gathering and processing costs when making decisions, leading to greater perceived credibility of the exporter by the importer. The exporter's credibility reduces the importer's perception of risks associated with opportunistic behavior by the exporter and increases the importer's confidence that the exporter will sacrifice short-term inequities for long-term benefits. Further, it reduces the transaction cost incurred in relationships (Mishra, Heide, and Cort 1998), leading to a willingness to build the relationship with the exporter by the importer. Thus,

H1: Exporter credibility has a positive effect on importer relationship intention.

H2: Signal clarity has a positive effect on exporter credibility

H3: Signal consistency has a positive effect on exporter credibility.

H4: Signal consistency has a positive effect on signal clarity.

Research method

The method employed in this study includes two phases. A qualitative study via in-depth interviews will be undertaken to modify the measures. A survey of managers responsible for importing in firms in Ho Chi Minh City and Hanoi, Vietnam, will then be undertaken to test the measures and the hypotheses. Confirmatory factor analysis and structural equation modelling will be employed to test the measurement and the theoretical models, respectively.

Expected contributions

The focus of this study is on the exploration of factors that affect the relationship intention of importers based on signaling theory. Under the assumption that importers are often uncertain about the quality of exporters' offers, this study argues that the clarity and consistency of exporters' signals have an effect on exporters' credibility, which is a key factor that drives the willingness to build relationships with exporters by importers. In so doing, the study attempts to extend the literature on buyer-seller relationships in marketing. Exporters also benefit from this study through an understanding of the role of signals and signal quality in building relationships with importers.

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