Signaling in Importer-Exporter Relationships - Evidence from Vietnam

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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).

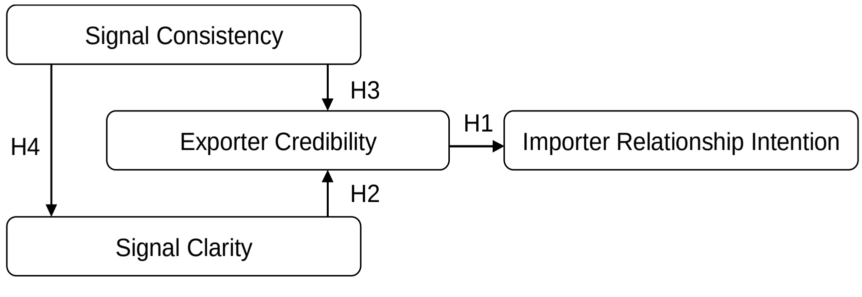
Signaling applications have also been found in the business-to-business context. In manufacturer-retailer relationships, Desai (2000) found that manufacturers use advertising support and allowances as signals of high demand for manufacturers' products. By increasing advertising support, the manufacturer 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 exporter’ signals, 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. Aside from product quality signals, which are often assumed to inform buyers before purchasing (e.g., Erdem and Swait, 1998; Milgrom and Roberts, 1986), signals in importer-exporter relationships are assumed to be sent continuously i.e. both before and after purchase. In export markets which are characterized by asymmetric information, an exporter faces difficulties in distinguishing themselves from less-qualified exporters, whilst an importer have difficulties in differentiating between high- and low-qualification providers (Mishra, Heide, and Cort, 1998). Therefore, in order to persuade the importer that he/she is the best qualified for selection, the exporter should send signals to show the capability to meet importer’ requirements, to address intention to build long-term relationship with the importer, and to distinguish 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 (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 the importer. Exporter credibility reduces importer’s perceived risks associated with engagement in relationships with the exporter, and reduces information gathering and processing costs that the importer needs to incur during decision making (Srinivasan and Ratchford, 1991). Therefore, credible signals help to ensure exporter’ obligation fulfillment and assists in reducing importer’ 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.

An exporter who is perceived as trustworthy, is believed to have the ability and intention to deliver what has been promised. 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, 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 can widen the asymmetry and imperfection of information, creating more noise and uncertainty (Samiee, 2000). Consistent signals can help to reduce 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 exporter 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 importer about, such as it's 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. 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

Sample and data collection

A sample of 418 Vietnamese importing firms in the two largest cities in Vietnam (Ha Noi and Ho Chi Minh) was surveyed to test the theoretical model. The key informant approach (Kumar, Stern, and Anderson, 1993) was employed to collect data. Respondents were importing managers or executives who were in charge of importing activities of responding firms. The partial self-administered method, in which the questionnaires were mailed to the respondents and then collected by interviewers, was used.

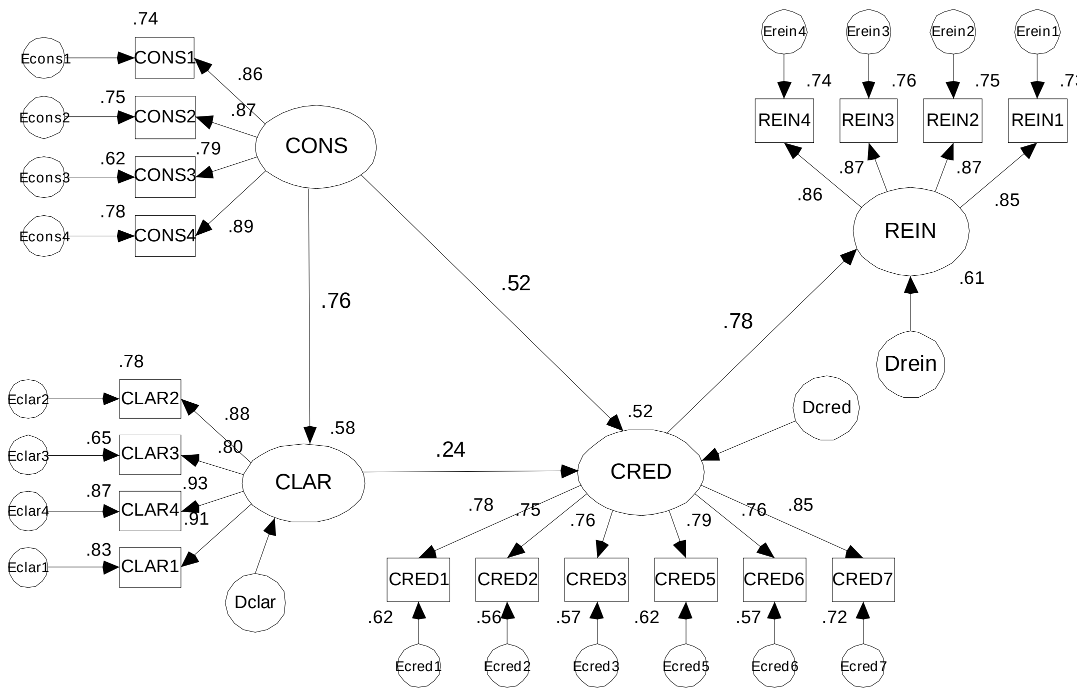
Measurement

Importer relationship intention (denoted by REIN) was measured by four items, based on scales developed by Ganesan (1994) and Kumar, Bohling, and Ladda (2003). Exporter credibility (CRED) was measured by seven items, based on scales from John and Reve (1982), Ganesan (1994), and Kumar, Scheer, and Steenkamp (1995). Signal consistency (CONS) was measured by four items, and signal clarity (CLAR) were measured by five items. These scales were based on the scales developed by Erdem and Swait (1998). However, these scales were developed to measure signal consistency and signal clarity in the B2C context. Therefore, in-depth interviews were conducted with managers to generate and modify some items. The questionnaire was initially designed in English and then translated into Vietnamese by two academics who were fluent in both languages. Back translation was undertaken to ensure the equivalence of meanings.

Data analysis and results

Cronbach's alpha was used to refine the scales and the results indicate that all the scales satisfied the requirement for scale reliability (α >.70). Confirmatory factor analysis (CFA) was used to assess the validity of the constructs. The CFA results show that all the scales measuring the constructs used in this study also satisfied the requirement for construct validity (overall model fit, unidimensionality, convergent and discriminant validity, variance extracted). Structural equation modeling (SEM) was utilized to test the theoretical model. The SEM results indicate that the model received a satisfactory fit to the data: GFI = .929; CFI = .976; and, RMSEA = .053. In addition, all hypotheses were supported by the data (see Figure 2).

Figure 2: SEM results (standardized estimates)



Discussion and conclusions

H1 posits a relationship between importer relationship intention and exporter credibility and was supported by the data (β = .78, $p < .001$). This finding confirms the central role of credibility in building and maintaining relationships between business partners. Exporter credibility helps to reduce importers' perception of risks associated with exporters' opportunistic behavior, increasing importers' confidence in exporters' competency and intention to fulfill their obligations (Ganesan, 1994). Under the condition of asymmetric information, credibility is the most apparent reflection of exporters' capability and intention (Moorman, Deshpande, and Zaltman, 1993). Credibility entails the desire to develop stable relationships, and to increase the confidence in the stability of the relationships. In transition economies, since the infrastructure and market institutions are largely underdeveloped, firms rely extensively on credibility to develop relationships with their business partners (Nguyen, Weinstein, and Meyer, 2005). For this reason, credibility is a fundamental element in building relationships. H2 posits the positive effect of signal clarity on exporter credibility and was also supported (β = .24; $p < .001$). This finding confirms that clear signals can help reduce misunderstanding. Signal clarity enables the importer to perceive accurately exporter's offers, and also increases the predictability of exporter's future behavior. Therefore, signal clarity enhances importer's perceptions of exporter's competency and intention to fulfill its obligations and promises.

A positive effect of signal consistency on exporter credibility (β = .52; $p < .001$) was also found. Therefore, H3 was also supported. Consistent fulfillment of obligations and promises provide strong evidence of the exporter's trustworthiness and competency. Signal consistency also guarantees exporter's future actions (Heil and Robertson, 1991) and prevents opportunistic behavior. Finally, H4, which proposes a positive relationship between signal consistency and signal clarity, was also supported (β = .76; $p < .001$). This finding indicates that signal consistency assists importers in interpreting signals more clearly and more precisely (Heil and Robertson, 1991).

The findings of this study suggest a number of implications for exporters in their quest for encouraging importers to engage in long-term relationships. As the information is asymmetric, the most challenging job for exporters is persuading importers that they are capable suppliers. The IMP's interaction approach emphasizes active roles of both buyers and sellers in the relationship building process (Hakansson 1982). While exporters invest in their efforts to find buyers, importers also engage in the search for suitable suppliers. Under the condition of asymmetric information, importers face difficulties in identifying and evaluating the best supplier among available suppliers in order to make the most appropriate selection decision. Signaling can help to overcome such problems. By studying relationship intention from a signaling perspective, this research highlights that everything exporters do (and say) sends signals. Not only statements they make and information they provide, but also any behavior by exporters' employees, inevitably convey signals. These signals can strengthen or weaken the relationships with importers (Duncan and Moriarty 1998). As importer-exporter relationships can involve a complex pattern of interaction, both between and within firms (Hakansson 1982), sending consistent and clear signals is critical in conveying exporter credibility and in helping to minimize problems caused by asymmetric information. Exporters should ensure that all signals sent to importers are clear and consistent over time in order to strengthen their relationships (Duncan and Moriarty, 1998).

Further, as critical elements in the interaction process, interacting participants play important roles in the success of buyer-seller relationships (Hakansson 1982). In addition to the characteristics and structure of each firm and the activities of different departments in each firm, the personalities and experiences of firms' representatives involved in the interaction process can also influence the consistency and clarity of signals sent from exporters. Therefore, export firms should pay sufficient attention to adopting processes which efficiently and effectively manage interactivity among departments/units and their staff in order to achieve strategic consistency of signals. A successful signaling strategy should ensure that all departments and all staff who interact with importers send messages with consistent meanings. This study's findings therefore highlight the importance of cross-functional management in planning and monitoring messages for strategic consistency. The power of signals under conditions of asymmetric and incomplete information would be compromised if the signaling strategies lack consistency and clarity. Senior managers should be encouraged to foster an awareness of the importance of signaling and signal consistency among employees and departments.

The findings also remind exporters of the centrality and fundamental role of credibility in buyer-seller relationships. Success in signaling exporters' abilities and intentions to fulfill their obligations (credibility) can help importers become more confident in doing business with exporters, thereby, increasing importers' intentions of staying in and developing relationships.

This study explores the effects of consistency and clarity of exporters' signals on importers' relationship intentions. As the IMP's interaction approach suggests, the success of relationships can be influenced not only by the parties involved and the interaction processes, but also by the environment in which the interactions take place and by the atmosphere affecting and affected by the interactions (Hakansson 1982). Environment and atmosphere help determine the degree of information asymmetry which exists between buyers and sellers. These factors can reduce or increase both the levels and effects of noise which can, in turn, disrupt the signaling process (Duncan and Moriarty, 1998). Therefore, future research could further investigate the roles of the environment and atmosphere (such as the degree of internationalization, the degree of development of information technology infrastructure, and national cultural differences) in signal interpretation and reaction, as well as these factors' influences on receivers' perceptions of signal clarity and consistency.

This study has a number of limitations. First, the generalisability of the findings to the other contexts must be undertaken with caution since the conceptual model was tested in only one market – a transition market, Vietnam. The model should be modified and tested in other transition markets in order to compare possible similarities and differences. Further, the cross-sectional nature of the data used in this study limits the ability to make causal inferences. A longitudinal study could investigate how signal clarity and consistency influence perception and behavior from the very first contact, and then over subsequent transactions and stages of relationship development.

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