

Distributor-seeking Behavior of SMEs in the Global Environment

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Abstract. This paper presents a conceptual model and propositions for research examining relationships between distributor-seeking factors and SMEs' choices of distributors, and the influence of the Internet on SMEs engaged in international business. Examining how international SMEs select new distributors and how the Internet technology, the only communications tool SMEs prefer due to limited financial resources, can benefit SMEs in the process of selecting new distributors, the paper discusses factors of information and knowledge, environmental uncertainty, and costs of coordination, which are related to the choice of a new distributor. Suggestions for future research are offered.

Keywords: small and medium-sized enterprise, interfirm relationships, electronic commerce

1. Introduction

The interfirm relationship has become another important business strategy for a few decades. More and more firms (both large and small) are currently changing the structures of their organizations to dyad or network forms. This change is caused, in part, by increasing global businesses, the capabilities of communications systems, and the changing concept of business success.

Globalization has allowed business firms to expand their markets and reach more potential customers worldwide. However, to be successful in a foreign market, firms need to possess insights into main factors influencing that market. As a result, interfirm relationships between foreign firms and local firms have been developed by many firms that conduct business internationally. Moreover, recently the Internet system, which is one communications system that has had a tremendous impact on the business environment, has played a major role in international business communication for both large and small firms.

This conceptual paper will study the relationships between dyad suppliers and distributors from the supply side, and investigate the benefits of international interfirm relationships and the Internet system for firms, especially small and medium-sized enterprises (SMEs), with the goal of finding ways to improve their international business performance. In other words, the objective of this conceptual paper is to answer the questions of whether international SMEs can gain more benefits from having an international distributor in the host country than having a domestic distributor in the home country, and whether the Internet can provide SMEs more opportunities to acquire distributors from the host countries.

The paper starts by reviewing major relevant issues including SMEs, interfirm relationships, and the Internet. The reviewed issues lead to the investigation of research questions via a conceptual study. The conceptual model and propositions are presented based on the distributor-seeking behavior of international SMEs and the capabilities of electronic commerce (E-commerce), both of which can reasonably increase the number of international distributors for SMEs. The conclusion is then drawn with some suggestions for further research.

2. Definitions of Relevant Issues

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2.1. Small and medium-sized enterprises

Competitive advantages that SMEs have over larger firms are flexibility^[1,2], innovation, shorter decision and information processes and better working enthusiasm^[2]. These competitive advantages have helped SMEs to succeed in the competitive business environment even though they are not comparable in size to larger firms.

Nevertheless, SMEs still struggle to better their business performance because of resource limitations, particularly human, financial, management, and information resources^[1,2,3]. These limitations put SMEs in difficult positions to compete with larger firms both domestically and internationally. The limitation has decreased their abilities to compete with larger firms and domestic firms in the international environment, especially, in the international context, even though the globalization of business practices has provided more opportunities for SMEs to improve their business performance.

Consequently, many SMEs have taken another strategic approach, business cooperation or interfirm exchange, in order to augment their resources. Since the purpose of this study is to suggest ways for SMEs to improve their international business practices, particularly the effectiveness of international supplier-distributor relationships, throughout this paper the term SMEs will refer to only small and medium-sized enterprises that conduct business internationally. In the next section, business cooperation or interfirm relationships, which is one of the main foci of this paper, will be discussed in detail to provide basic understandings of their beneficial roles.

2.2. Interfirm relationships

Marketing researchers started to realize the importance of interfirm relationships over twenty years ago when Dwyer, Schurr and Oh^[4] proposed the supplier-based framework for developing buyer-seller relationships. Based on concepts from modern contract law, Dwyer, Schurr and Oh^[4] divided business transactions into two groups: discrete transactions and relational exchanges. A discrete transaction or market governance^[5] is an ideal business process that involves no other business firms throughout the whole system^[4]. Rather than discrete transactions, most business firms inevitably engage in relational exchanges^[4] or nonmarket governance^[5] in which a business activity is composed of not only one buyer and one seller but also other related firms. In other words, many major factors related to the relationship structure and process, such as dependence, communication, cooperation, conflict, and trust, always play important roles in business transactions^[4]. Later on, Heide^[5] expanded the relational exchange or nonmarket governance concept further by dividing the concept into unilateral/hierarchical and bilateral relations. As implied by the term, a unilateral or hierarchical relation is controlled by rules, authority structures or even contractual provisions, which are developed by one exchange firm. In contrast, a bilateral relation brings all exchange firms together to develop their joint rules that would meet each individual firm's goals.

While Dwyer, Schurr and Oh^[4] viewed that the development process of relational exchange consists of five stages: awareness; exploration; expansion; commitment; and dissolution, Heide^[5] proposes three dimensions for both market and nonmarket governance: relationship initiation (involving the evaluation of potential exchange partners, initial negotiations about aspects of the subsequent relationship, and preliminary adaptation efforts); relationship maintenance (including role specification, planning, adjustment processes, monitoring procedures, incentive systems, and means of enforcement); and relationship termination. Nevertheless, both relational-exchange processes follow the same development path. During the awareness and exploration phases or the initiation dimension, an interfirm relationship starts from searching and evaluating potential exchange partners and, consequently, offering and negotiating obligations, benefits and burdens. After acquiring exchange partners, the relationship process moves to the expansion and commitment phases or the maintenance dimension in which exchange firms try to improve their relationships with partners. Finally, the dissolution phase or the termination dimension can occur any time along the relationship process^[4,5]. However, since the purpose of this paper is to study how international SMEs evaluate and acquire more exchange partners, the conceptual work of this paper will focus on only the initiation stage of the interfirm-relationship process.

In the initiation stage, suppliers should first recognize potential and possible distributors. This awareness is typically a unilateral action generated from the supplier side^[4]. Suppliers subsequently explore (search and

trial) potential partners in more details before making selections. During this subprocess, bilateral actions usually take place. Suppliers have to evaluate potential distributors based on a variety of aspects including skills, qualifications, attitudes or values, and assurance that goal divergence does not exist^[5]. At the same time, the potential distributors have to carefully consider preset obligations, expected benefits and costs, and potential exchange activities^[4].

Additionally, in the exchange process, communication is one of the major concerns and can affect the effectiveness of the interfirm relationships. Therefore, due to the merits of the Internet system, it is also worth examining its influences on the initiation stage of SMEs' interfirm relationships. The next section explains the benefits and roles of the Internet in business activities of SMEs.

2.3. The Internet

The Internet is considered to be one of the most effective technologies for conducting business because it offers significant opportunities to firms that have suffered from expenses related to communication, information and international expansion, and transaction costs^[6]. Due to the limited financial resources of SMEs, the Internet and E-commerce have become a new attractive alternative for SMEs to communicate with partners in their business networks^[7]. As a result, the Internet and E-commerce have brought SMEs to the position in which SMEs can compete effectively with larger firms. One of the major benefits that E-commerce has offered SMEs is the effective solution for SMEs to sustain their relationships with their international partners with very low costs^[7]. However, E-commerce would provide the most valuable benefits for SMEs if it is used as a complement to the traditional business strategies, which are already in place^[6].

3. Conceptual Model and Propositions

Before this study explores further how an international distributor in the host country can provide more benefits to SMEs than a domestic distributor in the home country, the main concepts related to important variables shown in the conceptual model below should first be examined.

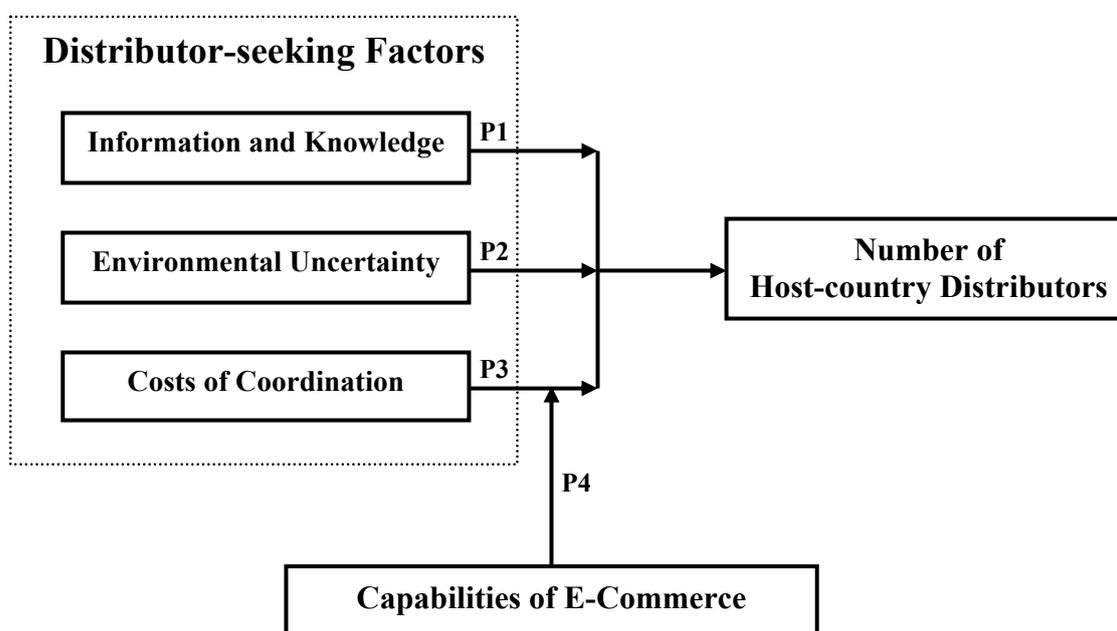


Fig. 1: A conceptual model

The limitation of resources and capabilities has weakened the internationalization of SMEs^[8,9]. An interfirm relationship is one of the critical strategies for helping SMEs increase their capabilities, expand the availability of their resources, and strengthen their abilities for international success.

3.1. Acquisition of information and knowledge

Globalization has provided more opportunities for international suppliers to establish relational exchange with foreign distributors^[10]. Interfirm relationships provide firms with the accessibility to strategic resources of their partners^[11]. Due to the scarcity of SME resources, business partners within the distribution channel of SMEs have helped each other reduce their resource barriers through sharing necessary resources^[9]. In the channel, target-market information that is exchanged and retained among distribution members can help firm members make decisions more accurately^[12]. Business partners in the host country are important sources of host-country knowledge for SMEs^[9]. In addition, there is evidence that establishing relationships with distributors in the host country is the most appropriate strategy for acquiring knowledge of the host country^[13,14]. Hence,

Proposition 1: *The greater the necessity of host-country information and knowledge, the greater the likelihood that an international SME will select a new distributor from the host country.*

3.2. Share of risks

According to resource dependence theory, firms with limited resources tend to reduce their uncertainty by increasing the degree of their dependence on other firms through establishing exchange relationships^[5]. Whereas extensive internal resources allow larger firms to easily acquire required strategic resources, limited resources have caused smaller firms to depend more on other firms^[11]. Interfirm relationships, such as buyer-seller relationships, usually involve critical benefits of reducing uncertainty, managing dependence, and exchanging efficiency between partners, and subsequently facilitating both parties to meet their joint and individual goals^[4].

In the uncertain environment of a foreign market, a host-country firm tends to have more access to important local authority and more familiarity with the host-country environment, such as host-country consumers' needs and tastes and host-country competitors' strengths and weaknesses^[9] than a firm from the home country and a firm from a third country. Therefore,

Proposition 2: *The greater the uncertainty of the host-country environment, the greater the likelihood that an international SME will select a new distributor from the host country.*

3.3. Costs of coordination

In an imperfect market, maintaining a firm's efficiency or sustaining its competitive advantages involves more or less transaction costs of adaptation, performance evaluation, and safeguarding^[15]. When costs of using other firms' products or services (outsourcing) are lower than costs of producing them in-house, transaction cost theory suggests that establishing relationships with partners for outsourcing is an effective alternative^[16]. However, in the international context, costs of coordination tend to be high because of the differences in time, space^[17] and culture. Even in an international joint venture, communication difficulty between two partners can occur and be time-consuming because of cultural differences, which, as a result, prevent the international partners from having close interactions^[18].

SMEs who have limited management resources and international knowledge and skills would get into difficulty with very high transaction costs^[9]. Consequently, firms with limited internal resources such as SMEs might prefer to establish relationships with domestic distributors in order to avoid high transaction costs. Accordingly,

Proposition 3: *The greater the costs of coordination, the less the likelihood that an international SME will select a new distributor from the host country.*

3.4. Capabilities of electronic commerce

From the internationalization perspective, the Internet and E-commerce have expanded the geographic market^[6]. E-commerce has been an effective and useful choice of technology for helping SMEs facilitate their business activities including expanding their international markets, and creating/maintaining their relationships with business partners. Because of their limited internal resources, using conventional communications tools to reach potential customers and business partners worldwide is almost impossible. The emergence of the Internet and E-commerce has apparently increased opportunities for SMEs to internationalize^[19,20], which leads to higher business performance.

There is much evidence that the Internet and E-commerce have helped SMEs enter foreign markets with very low costs^[21]. From their empirical research, Amit and Zott^[22] found that transaction efficiency could be significantly obtained from E-commerce. Coordination cost concerns among business partners increase the need for better interorganizational communication^[23]. Transaction costs, especially coordination costs, can be decreased, and coordination efficiencies can be increased significantly in the business-to-business E-commerce marketplace^[24]. Furthermore, electronically sharing information can strengthen interfirm relationships^[12]. In interorganizational E-commerce, information exchange can provide the basis for enhanced coordination and reduced uncertainty^[25]. The increase in transaction speed and facility and the decrease in opportunistic behavior could be expected from conducting business via E-commerce^[22]. Accordingly, E-commerce would help firms reduce costs of coordinating and transacting with their business partners. Hence,

Proposition 4: *E-commerce will favorably moderate the negative relationship between the costs of coordination and the likelihood that an international SME will select a new distributor from the host country.*

4. Conclusion and Further Research

The conceptual model and propositions that are presented in this paper have significant implications for both practitioners and researchers who are in interdisciplinary work that involves improving business performance of international SMEs through establishing interfirm relationships between suppliers and distributors from different countries. Even though resource constraints put SMEs in difficult business circumstances to compete with larger firms in domestic markets, their unique characteristics coupled with the emergence of global business have offered SMEs more opportunities to expand their markets. However, because of insufficient internal resources, most SMEs have used strategic partnership as their alternative move to reduce their costs of conducting international business. This paper studies how international SMEs select new business partners, or more specifically, distributors for their international businesses.

Future empirical work is suggested to test the propositions. More research should also be conducted toward cultural differences that might influence the relationships and the communication effectiveness among international SMEs. Additionally, since the Internet and E-commerce will likely continue as common communications tools for conducting business, the study of how trust and commitment among business partners could be signaled through these two business media might be another challenging research issue for interfirm scholars.

5. References

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