An SEM Analysis of the Competence to Reduce Transaction Costs of Export Management Companies in Thailand

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Abstract

This study has primarily focused on the competence of export management companies in reducing transaction costs, which relates to their performance. Structural equation modelling (SEM) technique has been adopted to test the relationship of each variable in the model of the study and examine the direct influence, indirect influence, and total influence of the independent variables on the dependent variables. The study has been provided the official database of export intermediary firms by the Department of Export Promotion, Ministry of Commerce, Thailand. The samples of 400 export intermediary firms were identified from the 1,486 population firms. The postal questionnaires were sent to these sample firms. Based on three theories, transaction cost, agency and resource-based theory, the results indicate that three valuable resources of export knowledge, negotiation skills, and specialisation and trustworthiness have direct and indirect effect on export intermediary performance and these resources have also been partially found their impact on the competence to reduce clients' transaction costs. Further, the result of the study indicates that model of the study has good fit to the empirical data.

Keywords: Export Intermediary Company, Export Management Company, Export Agent, Transaction Cost, Resource-Based Theory; Agency Theory, Export Performance

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1. Introduction

An export intermediary company or export management company is defined as a "specialist firm that functions as export departments of several manufacturers in non-competitive lines" (Root, 1994: 102). Root (1994); Peng and York (2001); Julien and Ramangalahy (2003); Sharma (2005); Shama, Tainai, and Sariteke (2006); Kumar and Bergstrom (2007); Shahrul (2011); Suwannarat (2016a, 2016b) argue that these companies play an important role in enabling exporters to enter wider overseas markets. By mediating between individuals and organisations which would not otherwise have come into contact, they provide a valuable service. Smaller firms may be alarmed by problems they anticipate if they move into exporting. Larger firms, in spite of their more extensive resources, may be reluctant to make the effort to enter new markets when they are performing satisfactorily in their existing markets. Both may see export agencies as a kind of new distribution channel linking them with foreign customers. The service provided by these intermediary firms in the exporting country range from freight forwarding and customs broking to trading, while in the importing country they can act as manufacturers' representatives and distributors.

Although research increasingly supports the view that intermediary companies can benefit exporters by facilitating their entry to a greater number of foreign markets (Ilinitch, Peng, Eastin, and Paun, 1994; Peng and York, 2001), to date the literature has largely concentrated on firms that export their own products (Vogel, 2009); focused on export intermediary firms from developed countries (Balabanis, 2000); or on such major emerging market economies as China (Feenstra and Hanson, 2004). As a result, a more rigorous understanding of the determinants of export intermediary performance could provide one of the critical missing link in existing research (Peng and Ilinitch, 1996: 609 cited in Peng and York, 2001: 328).

Hence, this paper attempts to propose a new research framework that concentrates on the justification to use the export intermediary firms as facilitators in reducing transaction costs by the exporters. The paper is structured as follows: first, the theoretical foundations of the study and related literatures are discussed. Then, the conceptual model and proposition development are presented, followed by the research method and results of the study. The final section is theoretical and managerial contribution of this study.

2. Literature Review

The literature suggests that examination of the determinants of export management firms' performance may provide insights to those engaged in this area and to policy makers, as well as to academics (Peng and Ilinitch, 1998; Shahrul, 2001; Balabanis, 2000, 2001, 2005, 2015; Ellis, 2003; Julien and Ramangalahy, 2003; Kumar and Bergstrom, 2007). There are a number of outstanding academic issues in need of illumination, such as why steady progress in internalising processes, which is found in much of the literature, does not always occur (Leonidou and Katsikeas, 1996; Peng and York, 2001). This may in part be due to the contribution of export intermediaries, who may facilitate a dramatic

increase in exporting on the part of certain manufacturers (Ilinitch, *et al*., 1994). On the other hand, some export management companies may seek to inhibit manufacturers' too rapid progress in developing their exports for fear they will no longer need the services of intermediaries. Needless to say, this may prove a short-sighted practice by alienating existing clients and deterring potential customers. Export management companies need to find a way to optimise their own performance without alienating their customers. Also, interestingly, the study of Sharma (2005) proposes the paradigm that the rapid growth of e-business would positively affect the survival of intermediary firm. These firms could incorporate e-business into export intermediary firm's operation. Sharma (2005) concludes that well established intermediaries would not only be able to enhance their capabilities but also be able to conduct them more efficiently and effectively. However, this issue has been still a serious debate among researchers. Whilst the study of Shahrul (2011) in presenting the framework of factors that affect intermediaries' competitive strategies and export performance, which is moderated by external environments. This could be re-conducted to test the applicability of his framework. Recently, Balabanis (2015) argues that most of the existing research on export intermediary firm focuses on the service structure and factors that influence on intermediary's choice of transaction creating services or physical fulfillment services. It fails to take into account how external and internal factors tie in with an export intermediary firm's service offering and how this combination affects export performance. In his study, Balabanis (2015) finds that co-alignment of an export intermediary's service mix configuration to a number of the contingencies lead to higher levels of profitability and efficiency.

This is clearly of practical importance to export intermediary firms and of commercial benefit to their clients. Establishing the determinants of export intermediary performance may also assist policy makers attempting to promote exports. (Peng, 1998; Peng and Ilinitch, 1998; and Peng and York, 2001). The present paper focuses on the identification of the performance determinants of export intermediary firms. It draws on transaction cost, agency, and resource-based theory and suggests that there are unavoidable constraints on transaction costs and frictions arising between client and agent, which mean that how successful export intermediary companies prove to be dependent on their possessing unique resources which enable them to reduce their clients' transaction and agency costs. In addition, this paper also emphasizes on the mediating role of the competence to reduce transaction costs in mediating the association between resources and the performance of export intermediary firms.

2.1 Theoretical Background

Three theories have underpinned this study. Transaction cost theory explains why exporters may choose intermediaries in the first place, while agency theory provides insights into the cost and benefits associated with intermediaries. Lastly, resource-based theory explains why some intermediaries utperform others.

2.1.1 Transaction Cost Theory

The central contention of transaction cost theory is that transactions can be classified by organisational form. Coase (1937) presented the idea that trading on the open market and keeping

everything within the firm are alternative ways of organising similar kinds of transaction, and that one or the other may prove to have a reduce cost depending on the circumstances of the transaction. The theory was further developed by Williamson (1975; 1985), who introduced the classification of “markets” and “hierarchies”. This defines a set of human factors and a set of environmental factors which, taken together, establish the efficiency of a particular form of contracting. The human factors are bounded rationality and opportunism. The environmental factors are uncertainty and small numbers. Where these factors are problematical they may encourage a firm to bypass the market and resort to hierarchical modes of organisation, keeping transactions ‘in-house’. Firms make choices depending on which choice minimises transaction costs. Such costs are likely to arise due to the bounded rationality of decision makers, uncertainty and complexity of the environment, and asymmetric distribution of information between parties to an exchange. Because these costs are likely to be substantial when transacting across borders, export intermediaries may be chosen “in order to minimise the cost of achieving export sales” (Beamish, *et al*., 1999: 39 cited in Peng and York, 2001). To explain the application of transaction cost theory in an international context, it needs to be recognised that, when exporting, manufacturers have two options: to export directly, or to export indirectly via intermediaries. If exporters are to be persuaded to choose the second option, export intermediary firms need to be able to reduce demonstrably their clients’ export-related transaction cost relative to direct exporting. Their performance depends on how successful they are in reducing these costs.

2.1.2 Agency Theory

If transaction cost theory focuses on the choice between trading in-house rather than in the open market, agency theory focuses on the differing interests of the principal and the principal’s agent (Jensen and Meckling, 1976; Peng and York, 2001; Shapiro, 2005). While exporters are seeking to enhance their export performance through the use of agents, agents (export intermediary firms) may be primarily interested in maximising the fee for their services while minimising their effort. They may exaggerate their skills and knowledge, and this problem becomes acute if principals are unable accurately to assess the agents’ skills and monitor their activity. Principals have to seek to minimise information asymmetry by monitoring activity to curb agents’ opportunism, or structure incentives to ensure that both parties’ interests are aligned. These costs of “monitoring expenditures of the principal, the bonding expenditures by the agent, and the residual loss” are known as agency costs (Jensen and Meckling, 1976: 308). Theoretically, the best performing intermediaries will be those who also minimize agency costs for their clients.

2.1.3 Resource-Based Theory

Resource-based theory emphasises analysis of the resources firms possess, some of which may be firm-specific and non-transferable. Through these firms can gain competitive advantage and enhance performance. (Barney, 1991; Barney and Clark, 2007). These resources are often intangible, embedded within the firm, and knowledge-based. In the case of export intermediaries, market knowledge and negotiation skills may be important for minimising the search and negotiation costs associated with export transactions. From the standpoint of this theory, the success or otherwise of export intermediary

firms will depend on the extent to which they are able to acquire and deploy unique resources. Without this, manufacturers might decide to develop their own in-house export capabilities. Many large manufacturers do just that, obliging intermediaries to service smaller firms, or to concentrate on larger firms' marginal markets.

2.1.4 Theory Integration

Each of these theories illustrates one aspect of export management. Transaction cost theory attempts to predict firms' governance choices, while agency theory draws attention to the underlying conflict between principals and agents. And indeed, most transaction cost and agency theory-based research focuses on the ways in which manufacturers arrive at decisions about how to implement export policy (Aulakh and Kotabe, 1997; Campa and Guillen, 1999). Intermediaries, however, can also employ resources to influence the relationship (Peng and York, 2001). Resource-based theory focuses on how they exploit their unique capabilities to reduce transaction and agency costs and enhance their own performance. Transaction cost theory has been criticised as having limited applicability in placing too much emphasis on the structural features of trading at the expense of other important aspects. Zajac and Olsen (1993) suggest that it has encouraged management to focus more on anticipated gains than anticipated losses incurred in attempting to restrict opportunistic behaviour. Its critics also see the approach as mistaken in its explicit or implicit assumption that the firms in a given industry are homogeneous. In the real world, no two firms have identical resources and technologies (Kogut, 1988; Dyer, 1997). "Firm homogeneity is unrealistically assumed" (Robson *et al* 2002: 389).

Agency theory, for its part, has been critcised for overlapping with transaction cost theory. Williamson (1988: 569 cited in Peng and York, 2001) argues that the two theories are very similar in their orientation on managerial discretion and efficient contracting, and that their behavioural assumptions are "substantially identical". Resource-based theory, meanwhile, is criticised for defining competitive advantage as a value-creating strategy based on resources that are, along with other characteristics, valuable. The reasoning is said to be circular and therefore "operationally invalid" (Priem and Butler, 2001a: 31). Resource-based theory is criticised for ignoring external factors related to an industry as a whole. The industry structure as well as other external factor analysis should also be considered. (Lippman & Rumelt, 1982). Through external change an initial competitive advantage could be nullified or even transformed into a weakness (Priem and Butler, 2001b; Peteraf, 1993; Rumelt, 1984). Given these deficiencies, a combination of the theories seems likely to provide a more satisfactory conceptual framework. An integrated approach suggests that the export intermediary firm can be seen as an agent whose resources help to reduce export-related agency costs and transaction costs for its principals (Peng, 1998: 67).

2.2 Resources

Export knowledge

Competency to reduce clients' search costs can be impacted by export knowledge - the knowledge of foreign markets and export processes. This knowledge has been studied and measured in many preceding studies (e.g., Cavusgil and Zou, 1994; Eriksson et al., 1997; Peng & York, 2001). Employing a

multidimensional approach, Peng (1998), and Peng and York (2001) measured the export knowledge of export intermediaries by eliciting information focusing on the export agent's experience with key decision maker's experience in foreign cultures, experience in the particular industry, and so forth. It was found that export knowledge can positively affect the competency to reduce clients' search costs. This knowledge, says Peng (1998), can be regarded as a unique, valuable, intangible resource, that cannot be easily replicated by rivals.

Negotiation skills

Negotiation skills have also been regarded as a valuable asset [resource] as it can positively impact on the competency of export intermediary firms to reduce clients' negotiation costs. Tung (1988) and Peng and York (2001) noted that this antecedent factor has been operationalised as negotiation expertise and frequency. Peng and York (2001) further defined it as "possessing an intangible resource embodied in ability [competency] to handle export negotiations" (Peng & York, 2001, p. 333).

Specialisation and trustworthiness

In addition, Peng and Ilinitch (1998) had also stressed that export intermediary firms normally specialise in certain areas. They deal with products made by locals or by foreign market or both. Because of this specialisation, these firms know the products and the markets they serve very well. They usually have well-established networks of foreign distribution already in place. Hence, specialisation could be regarded as a valuable asset of intermediaries that cannot be easily transferred or imitated by others. This specialisation can enhance their competency to reduce transaction costs for clients, especially clients' monitoring and enforcement costs whilst also positively impacting on their own performance.

3. Conceptual Background and Hypothesis Development

According to Peng and York (2001), transaction cost, agency, and resource-based theory indicates that export-related costs can be broken down into three main constituent parts: (1) search costs, (2) negotiation costs, and (3) monitoring and enforcement costs. The resources commonly possessed by export intermediary firms are likely to enable exporters to reduce these costs. Peng and York (2001) derive a model by focusing on the effect of ability to lower transaction costs on export intermediary performance. They point out that "we derive a research model, which posits that as long as the export intermediary possesses resources that will help exporters lower export-related costs along these three dimensions, its services will be sought, its survival viable, and its success likely" (Peng and York, 2001: 332). Also, in their research model, Peng and York (2001) define ability to lower transaction costs in terms of resources that intermediaries possess. However, according to Barney (1991), resources can be seen in a number of forms both intangible and tangible aspects. Resources may have relationships among themselves and affect export intermediaries' performance. Thus, the different approach has been applied in this study by re-defining the variables; this study operationises resources separately from competence to reduce transaction costs in order to study the direct effect of resources on the competence to reduce transaction

costs and the direct impact of competence to reduce transaction costs on intermediary firm's performance. As well, the indirect effect of resources on the intermediary's performance has been established to study. In addition, the mediating role of the competence to reduce transaction costs that mediate the relationship between resources and intermediaries' performance has also been set up to test in the study. Given that the competitive advantage of export intermediary firms grows out of their intangible resources, the strategic management literature on the resource-based view of firm (Barney, 1991; Barney and Clark, 2007), the transaction cost paradigm (Williamson, 1975, 1985), as well as the agent theory (Jensen and Meckling, 1976) enable researcher to generate a research model in Figure 1 and set of the following hypotheses.

3.1 Minimising Search Cost

Search costs typically include the upfront costs of market research and planning. Without extraneous help this can be expensive and time-consuming (Eriksson et al., 1997). Peng and York (2001); Julien and Ramangalahy (2003); Balabanis, 2000, 2001, 2005; Shahrul (2011) argue that these costs deter many manufacturers from expanding into international markets, and if the attempt is made to cut corners, inadequate prior information increases the likelihood that their venture into exporting may be unsuccessful. Export intermediaries are able to provide crucial knowledge about foreign markets, and are likely to be familiar with export procedures and internatonal marketing strategies. They can also leverage this knowledge across a plurality of client firms and products, achieving economies of scale in overseas distribution which are beyond the reach of individual exporters. For leading export intermediary firms, their knowledge and competence to leverage it can be seen in terms of resource-based theory as a unique, intangible resource. In the study of Peng and York (2001), they find the strong support of the influence of knowledge on export intermediary firms.

3.2 Minimising Negotiation Cost

Negotiation costs include such direct costs as travel, communication and staff, but also the costs of potential risk when dealing with unfamiliar foreign customers (Tung, 1988: Weiss, 1994). Exporters may find their lack of experience exacerbated by a lack of knowledge about culturally derived negotiation norms (Lewicki, Litterer, Minton, and Saunders, 1994), resulting in disadvantageous deals. The expertise of export intermediary firms may often enable them to obtain a better deal for their clients. Excelling with this intangible resource of skills in the handling of export negotiations can give intermediaries a competitive edge (DeNoble, Castaldi, and Moliver, 1989; Peng and York, 2001; Shahrul (2011). The partial influence of negotiation skills on intermediary firms' performance can be found from the study of Peng and York (2001).

3.3 Minimising Monitoring and Enforcement Cost

Peng and Ilinitch (1998) argue that export intermediary firms normally specialise either by product or by foreign market or both. Because of their specialisation operated by skilled staffs, they know their products and markets they serve very well and usually have well-established networks of foreign distribution already in place. Hence, specialisation could be regarded as one of valuable resources of

intermediaries that cannot easily be transferred or imitated by others and this could lead to the enhancement of the competence to reduce transaction costs for their clients, and positively impact on their performance.

According Sabel (1993); Barney and Hansen (1994), trust is the mutual confidence that no party to an exchange will exploit another's vulnerabilities. Parties to an exchange can be vulnerable in several different ways. When parties to an exchange find it very costly to evaluate accurately the quality of the resources or assets others assert they will bring to an exchange, these economic actors are subject to adverse selection vulnerabilities (Akerlof, 1970) and when parties to an exchange find it very costly to evaluate accurately the quality of the resources or assets others are actually offering in exchange, these economic actors are subject to moral hazard vulnerabilities (Holmstrom, 1979). Also, when parties to an exchange make large, asymmetric transaction-specific investment in an exchange, they are subject to hold-up vulnerabilities (Klein, Crawford, and Alchian, 1978). Sable (1993) argues that when parties to an exchange trust each other, they share a mutual confidence that others will not exploit any adverse selection, moral hazard, hold-up, or any other vulnerabilities that might exist in a particular exchange. Sabel (1993) point out that a definition of trustworthiness follows directly from Sable's definition of trust. As the word itself implied, an exchange partner is trustworthy when it is worthy of the trust of others. An exchange partner worthy of trust is one that will not exploit other's exchange vulnerabilities. Barney and Hansen (1994) point out that whilst trust is an attribute of a relationship between partners [company], trustworthiness is an attribute of individual exchange partner [company] and they summarise from their study that trustworthiness could be a [valuable resource] and a source of competitive advantage of each firm.

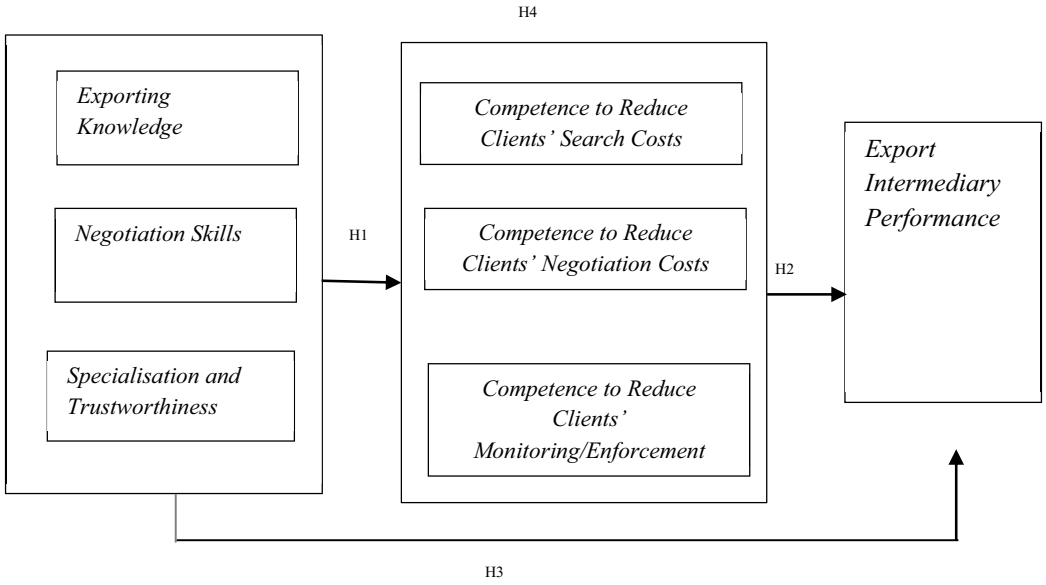
Furthermore, Bergen, Dutta, and Walker (1992); Peng and Ilinitch (1998) argue that the use of intermediaries introduces potential agency costs in the manufacturer-intermediary [intermediary and its clients] relationship. As agents, intermediaries may behave in a way that is not always in the best interests of their principals. If agency costs in this relationship are deemed to be too high, the manufacturer (principal) may (i) opt to integrate the intermediary function, i.e., "direct export", (ii) elect to use overseas-based "import intermediary"; and/or (iii) quit exporting at all. Each of these options depresses the demand for export intermediary services. Thus, export intermediaries' chances of being selected and retained by exporters also depend on whether they can assure their clients that the potential agency costs will be less than monitoring/enforcement costs manufacturers would have incurred when engaging in direct export (Peng, Ilinitch, and Hill, 1998). Apart from export knowledge and negotiation skills in exporting, therefore, trustworthiness of intermediary firm can be regarded as one of the important resources in assuring clients and enhancing the competence to reduce the monitoring and enforcement costs for its clients and then, it leads to the better chance of intermediaries being selected by their clients, and eventually, the better performance of intermediary firm will be achieved (Cosimano, 1996; Peng and Ilinitch, 1998; Peng and York, 2001; Shahrul, 2011).

As well, after contracts have been signed, there is a need for ongoing monitoring and enforcement of contractual obligations. Non-observance of the terms may result from foreign buyers' misunderstanding as

a result of cultural differences, or from deliberate opportunistic behaviour (Williamson, 1985). Exporters (principal) must be constantly on the look-out for such hazards, and will often resort to the services of export intermediaries to reduce these costs (Peng and York, 2001). Based on the literature above, the following hypotheses have been established.

Hypothesis 1: The greater the export intermediary firm's resources (export knowledge, negotiation skills, and specialisation and trustworthiness), the higher the competence to reduce clients' transaction costs (search costs, negotiation costs, and monitoring and enforcement costs).

Figure 1 – The Proposed Model



Hunt and Morgan (1995); Peng and Ilinitch (1998) argue that the marketing and strategic management literature generally concentrate on the determinants of firm performance as the main research question. Particularly, "research should focus on what determines export intermediary performance, a question that has consistently puzzled scholars, practitioners, and policymakers worldwide (Peng, 1998 cited in Peng and Ilinitch, 1998: 615). The competitive advantage of export intermediary firms focusing on their intangible resources has been indicated in the literature particularly in the form of export knowledge, negotiation skills, specialisation and trustworthiness; these intangible resources could help to reduce the transaction costs of the intermediaries' clients or the exporters, Then, it leads to the better chance of intermediaries being selected by their clients, and eventually, the better performance of intermediary firm will be achieved (Cosimano, 1996; Peng and Ilinitch, 1998; Peng and York, 2001; Shahrul, 2011). Therefore, this leads to the following hypotheses.

Hypothesis 2: The greater the competence to reduce clients' transaction costs (search costs, negotiation costs, and monitoring and enforcement costs), the stronger the performance of Thai export intermediary firms.

Hypothesis 3: The greater the export intermediary firm's resources (export knowledge, negotiation skills, and specialisation and trustworthiness), the stronger the performance of Thai export intermediary firms.

3.4 The Competence to Reduce Transaction Costs as Mediator

As the literature and the established propositions shown above, it can be seen that the direct impact of resources on the competence to reduce transaction costs and the direct influence of competence to reduce transaction costs on intermediary firm's performance have been investigated. In addition, the indirect effect of resources on the intermediary's performance has also been examined. Thus, the competence to reduce transaction costs, in the study model, could be the mediator that mediates the relationship between resources and intermediaries' performance. Hence,

Hypothesis 4: The relationship between resources and performance of Thai export intermediary firms is mediated by the competence to reduce transaction costs (search costs, negotiation costs, and monitoring and enforcement costs).

4. Research Methodology

4.1 Sample and Data Collection

Compiling a database from the financial and business press is problematic. Glaister and Buckley (1994); Hergert and Morris (1988) point out that it is likely that only large and well known firms will be reported in the press, with perhaps many small ventures going unreported. Accordingly, this study follows their approach and has used an official database of export intermediary firms provided by the Department of Export Promotion, Ministry of Commerce, Thailand. There were 1,486 firms. An adequate sampling was determined by using the sample size table of Krejcie and Morgan (1970). A simple random sample of 400 export intermediary firms was identified from the population firms. The postal questionnaire in Thai and English was sent to the sample companies, addressed to the target respondents of this study, the chief executive officer (CEO) or managing director of the export intermediary firm. The response rate was 25.50%. To test non-response bias, a comparison was made between early and late respondents, as suggested by Armstrong and Overton (1977). The results showed no significant differences between early and late responses.

4.2 Measurement

4.2.1 Dependent Variable

The dependent variable in this research is export intermediary performance. It was measured by six items dealing with performance of an export intermediary firm. These include the acquisition of new clients, the retention of existing clients, goal achievement, market share, income, and export growth, which were developed from the study of Shoham (1998).

4.2.2 Independent Variable

The constructs of independent variables in this research consist of exporting knowledge, negotiation skills, and specialisation as well as trustworthiness. These are the resources of firms, defined and developed from the literature presented above. Export knowledge is measured by five items concerning knowledge competence about export operation, development of knowledge of the staff, knowledge of the overseas connection, knowledge of the overseas environment, and knowledge of the customer's needs. Negotiation skills are measured by five components involving negotiation skills, successful negotiation, negotiation strategy, compromise skills, and the exchange of negotiation techniques and strategy, while specialisation and trustworthiness of the export intermediary firm are measured in terms of reputation and image, honesty and trustworthiness, expertise, specialisation transformation, and mindfulness of the interests of clients.

4.2.3 Mediator Variable

The mediator variable in this study is the competence of the export intermediary firm to reduce clients' transaction costs. These constructs are derived from the literature review and conceptual background, discussed above. Competence to lower clients' search costs is measured by four items, which are the costs of searching for information about the legal procedures and environment of overseas countries; the characteristics and needs of foreign customers; exporting procedure; and knowledge across multiple parties. Competence to lower clients' negotiation costs is measured by four items which reduce the following costs: negotiation direct costs, negotiation indirect costs, communication difficulties, and losses incurred through negotiation. Competence to reduce clients' monitoring and enforcement costs comprises the following three items: monitoring and enforcing compliance by overseas partners with contractual obligations; monitoring and protecting the interests of clients; and helping clients' overseas partners to understand the contracts and agreements correctly.

4.2.4 Control Variable

Firm size and firm operational capital are the control variables of the study. Firm size was measured by the number of employees, while firm operational capital was established from the value of operational capital. According to the literature (Husted and Allen, 2007; Ciliberti, Pontrandolfo and Scozzi, 2008), larger firms tend to have more resources and to be more active than smaller firms in strategic planning, as well as better utilising resources to accomplish the firm's goals. Hence, the dummy variables distinguish firms' size and firms' operational capital.

4.3 Reliability and Validity

Reliability of the measurements was computed by Cronbach Alpha coefficients. In the scale of reliability, the coefficient values in this study are greater than 0.70; this can be interpreted as meaning that the scale of all measures is internally consistent (Nunnally and Bernstien, 1994). Factor analysis is employed to test the validity of data in the questionnaire. According to the rule of thumb of Nunnally and Bernstein (1994), if all factor loadings are greater than 0.40 cut-offs and are statistically significant, this can

be taken as showing the validity of instruments. All the results of this study comply with this rule as can be seen at Table 1.

Table 1: Result of Measure Validation

Variables	Factor Loadings	Reliability(Alpha)
Exporting Knowledge (EK)	0.591-0.869	0.722
Negotiation Skills (NS)	0.648-0.811	0.723
Specialisation and Trust(NS)	0.591-0.862	0.749
Competence to Lower Clients' Search Cost(ALCSC)	0.815-0.929	0.911
Competence to Lower Clients' Negotiation Cost (ALCNC)	0.812-.923	0.909
Competence to Lower Clients' Monitoring/Enforcement Cost (ALCME)	0.866-0.913	0.877
Performance (EP)	0.556-0.935	0.901

4.4 Statistical Technique

Structural equation modelling (SEM) techniques particularly in the form of path analysis has been adopted to test the proposed theoretical model shown in Figure 1, because they allow simultaneous estimation of multiple relationships among observed constructs, and account for measurement error. This study uses IBM/AMOS 20 to run the analysis.

5. Findings and Discussion

Table 2: Correlation Matrix of Variables

Variable	EK	NS	ST	ALCSC	ALCNC	ALCME	EP
Export Knowledge (EK)	1						
Negotiation Skill (NS)	.676**	1					
Specialisation and Trustworthiness (ST)	.625**	.629**	1				
Competence to Reduce Clients' Search Cost (ALCSC)	.325**	.324**	.328**	1			
Competence to Reduce Clients' Negotiation Costs (ALCNC)	.371**	.429**	.298**	.660**	1		
Competence to Reduce Clients' Monitoring and Enforcement Costs (ALCME)	.362**	.472**	.274**	.649**	.659**	1	
Export Intermediary Performance (EP)	.578**	.639**	.385**	.276**	.410**	.353**	1

**p<0.01; Minimum VIF = 2.323; Maximum VIF = 5.894

Table 2 shows the correlation matrix of the variables. Possible problems relating to multicolinearity, occur when two or more independent variables are linearly related very closely. This problem was also monitored. Hair, *et al* (2006) argue that a correlation with a value above 0.80 should be considered a serious problem. After the simple correlations between independent variables and standard errors of the estimated coefficients had been examined, the data showed there was no serious multicolinearity which would distort the efficiency of the estimate. Also, the variance inflation factor (VIF) has been used to check the multicolinearity problem between the independent variables. The VIF value of this study (ranging from 2.323 to 5.894) is below the cut-off value of 10; this indicates that the independent variables do not correlate to any great extent with each other (Neter, William and Michael, 1985).

5.1 The Overall Model Fit

Table 3 illustrates the results of the overall model fit testing. The data indicate that the good fit between empirical data and the established model can be found. To check the overall model fit, Kline (2005) argues that the test could be based on the statistical values of indices that have been classified into three categories: absolute fit indices, comparative fit index, and miscellaneous indices. Regarding the absolute fit indices, Hair et al., (2006) point out that this type of index shows the difference between the implied variances and covariance and empirical sample variances and covariance. The chi-square with probability value that is greater than 0.05 indicates the fit between empirical data and model (Hoyle, 1995). The result of the study in Table 3 shows 2.779 Chi-square value with 4 degrees of freedom at 0.595 probability level. This means the fit between empirical data and established model. Kline (2005) further explains that other indices in this category for testing the model fit consisting of root mean square error of approximation (RMSEA), standardized root mean square residual (SRMR), and goodness of fit index (GFI). RMSEA as well as SRMR are the badness-of-fit indices. If these indices show zero value, it can be interpreted as perfect fit of empirical data with the model. The acceptable range of RMSEA, SRMR values could be 0.00-0.08 (Kline, 2005). Goodness of fit index (GFI) is similar to squared multiple correlation; it shows the proportion of observed covariance that can be explained. The GFI with 1 value means the perfect fit. The acceptable range could be 0 – 1. The data of this study fully corresponds to these criteria. Table 3 shows 0.00 RMSEA value (perfect fit); it also shows p-value or PCLOSE at 0.696 values, which is greater than 0.05 indicating good fit. SRMR value is 0.027, whilst GFI value shows the high fit value of 0.992.

With the second index, the comparative fit index (CFI), McDonald and Marsh (1990); Arbuckle and Wothke (1999); Kline (2005) point out that this index compares the model of interest with some alternative, such as the null or independent model. Specifically, the CFI compares the fit of a target model to the fit of an independent model—a model in which the variables are assumed to be uncorrelated. Lattin et al., (2003) argue that the acceptable CFI value could be 0.90 and 1.00. The outcome of this study (CFI=1) completely match with this criterion.

Arbuckle and Wothke (1999) explain that the miscellaneous indices include CMIN/DF index, modification indices, standard errors, HOELTER index, and so forth. However, the Chi-square statistic

comparing the tested model and the independent model with the saturated model (CMIN/DF) has been used widely among scholars to test the model fit. The acceptable CMIN/DF value could be lower than 3 (Arbuckle and Wothke, 1999). The result of this study shows a good outcome of 0.695 CMIN/DF value, whilst the HOELTER index that shows 325 value meaning the appropriateness of sample size of the study (greater than 200). The overall adjusted model fit has been shown at Figure 2 and Figure 3.

Further, this study also finds the direct, indirect, and total influence of independent variables on dependent variables in the model as shown in Table 6 – Table 8. Regarding the indirect effect, two intangible resources (negotiation skills and specialisation and trustworthiness) have been found their positive indirect effects on export intermediary performance with 0.017 and 0.034 estimate values respectively, whereas export knowledge shows negative indirect effect on export intermediary performance with -0.001 estimate values. In terms of direct effect, the data show the details are in the following: a) specialisation and trustworthiness has direct effect on competence to reduce search costs (0.345), competence to reduce monitoring/enforcement costs (-0.171), and export intermediary performance (-0.380); b) negotiation skills has direct effects on competence to reduce monitoring/enforcement costs (0.675), competence to reduce negotiation costs (0.536), export intermediary performance (0.816); c) export knowledge has direct effects on competence to reduce search costs (0.080), and export intermediary performance (0.422); d) competence to reduce monitoring/enforcement costs, competence to reduce negotiation costs, competence to reduce search costs have direct effects on performance of export intermediary firms (-0.123, 0.218, -0.012). Also, these direct effects can be seen from Figure 2 and Figure 3.

Figure 2: The Adjusted Model with Unstandardised Estimates

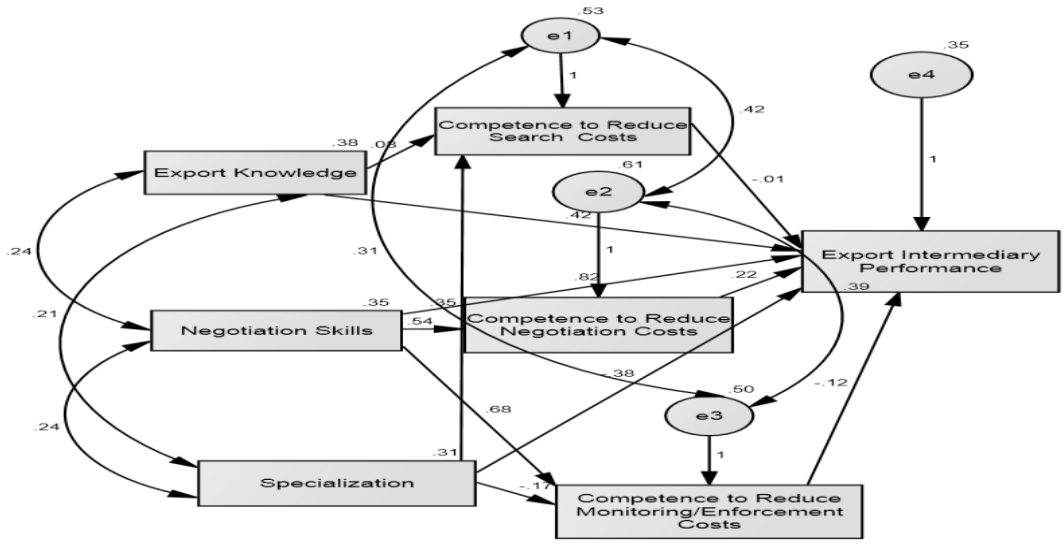
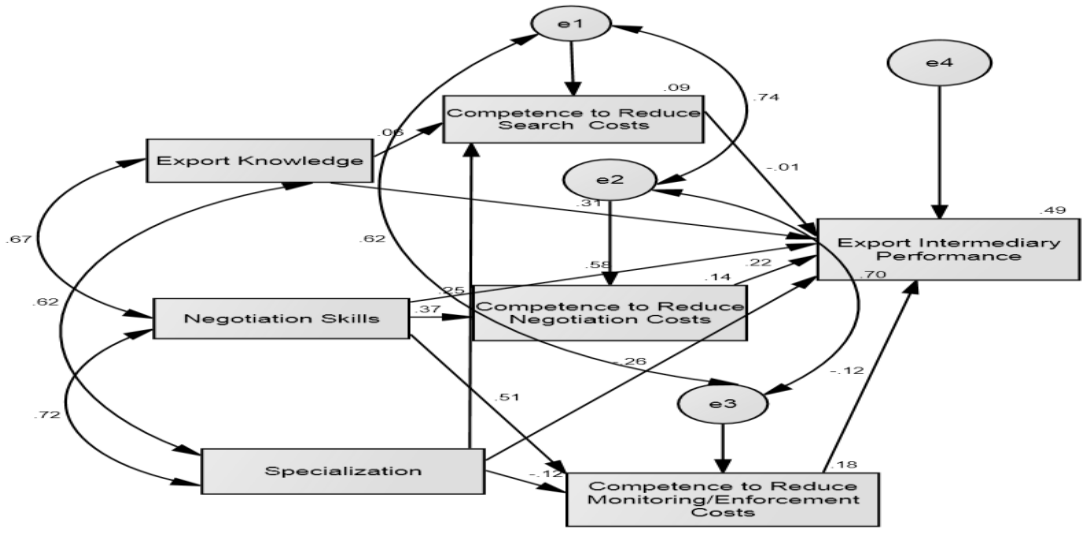


Figure 3: The Adjusted Model with Standardised Estimates



5.2 The influence of export intermediary firm's resources on the competence to reduce clients' transaction costs

Table 4 and Table 5 show the regression weights and standardized regression weight. They inform the results of the relationships between the intangible resources of the export intermediary firm and the competence in reducing transaction costs for its clients. The results indicate that intangible resources have significant effect on the competence to reduce transaction costs which are in the following: negotiation skills impact on the competence to reduce negotiation costs (β= 0.536, p<.001); negotiation skills affect on the competence to reduce monitoring and enforcement costs (β= 0.536, p<.001); specialisation and trustworthiness influence on the competence to reduce search costs (β= 0.345, p<.01). Whilst other two pairs of the relationships between export knowledge and competence to reduce search cost; specialisation/trustworthiness and competence to reduce monitoring and enforcement costs do not show the significant association (β= 0.080, p>0.05; β= -0.171, p>0.05). The outcomes in this study are both consistent and different to those in previous studies. Suwannarat (2016a, 2016b) can find the significant positive associations of all intangible resources on the competence to reduce transaction costs with the regression analysis via SPSS program. These different findings may result from the simultaneous estimation of multiple relationships among observed constructs of AMOS analysis technique, which this study adopts to use. Peng and Ilinitch (1998) argue that, in terms of search cost minimising, export intermediaries with extensive knowledge about foreign markets and export process could help to reduce clients' search cost since these firms already know the markets and products in which they specialise, and they also have a ready list of customers and long –standing connections and networks within those markets. This knowledge could be regarded as an intangible resources, which cannot be easily imitated

(Barney, 1991). However, the significant influence of export knowledge on competence to reduce search cost cannot be found.

Remarkably, this study can find the significant positive impact of specialisation/trustworthiness on the competence to reduce clients' search costs (β= 0.345, p<.01). Specialisation of export intermediary firm either by product or by foreign market or both, which results from experiences and routine working for a period of time, could enhance its competence to reduce clients' search costs because its specialisation usually has well-established networks of foreign distribution already in place. This could help to reduce search costs for its client. In addition, according to Barney and Hansen (1994), trustworthiness could be regarded as a valuable resource and a source of competitive advantage of each firm. This type of resource could create mutual confidence among the parties and no party to an exchange will exploit another's vulnerabilities. This resource could augment its competence to reduce clients' search costs by leveraging its knowledge about overseas markets and export procedure across a plurality of clients firms and products and fulfilling economies of scale in foreign distribution which individual exporters cannot do by themselves. These perhaps could be new knowledge filling the gap in the literature.

Regarding the competence to reduce clients' negotiation costs, the results of this study correspond to those from previous studies (e.g., Suwannarat, 2016a, 2016b). Peng and York (2001) point out that intermediary firm could save the cost of negotiation for its clients; export-related negotiation costs may be substantial because these costs not only include the logistical costs of conducting international negotiations, but also include the costs of potential hazard when dealing with unfamiliar foreign negotiator. For inexperienced exports, lacking of knowledge and experience in export markets is often synchronising with lacking of understanding of, and sensitivity to, the intricacies or international negotiation. Hence, export intermediaries could often reduce these costs as a result of their expertise and experience in foreign negotiations, their networks and contacts overseas, and their competence to prevent and resolve misunderstandings owing to language and cultural gaps (Weiss, 1993 cited in Peng and Ilinitch, 1998).

In addition to reducing search and negotiation costs, successful intermediaries could also provide services in ways that reduce the monitoring costs of their clients, not only the behavior of overseas customers, but also of the intermediaries themselves. A number of researchers (Burgen, Dutta, and Walker, 1992, Peng and Ilinitch, 1998) rationalise the exporter – intermediary relationship via the agency costs. As agents, intermediary firms may behave in a way that is not always in the best interests of the principals (clients or exporters), for example, withholding critical information about overseas markets, monopolising the communication between exporters and foreign buyers, or simply failing to perform as promised (Sharma, 1997; Peng and Ilinitch, 1998). If such agency costs in this relationship are deemed to be too high, the principals (exporters or clients) may choose to operate this function by themselves instead, or may use overseas-based "import intermediaries" (Peng and Ilinitch, 1998: 611), or quiting exporting. Thus, Peng and Ilinitch (1998); Peng, Ilinitch, and Hill, (1998); Peng and and York (2001) assert that the export intermediaries' chance of being selected and retained by exporters depends on whether

they can assure their clients that the potential agency costs will be less than the monitoring/enforcement costs exporters would have incurred when engaging in direct export. Therefore, the intermediary who is specialised, honest and trustworthy and has the good reputation and image is likely to be selected by exporters. Because dealing with such sincere intermediary firms would help exporters to reduce the monitoring/enforcement costs: costs in detecting and monitoring the behavior of overseas trade partners. Also, the agency cost of using services from the honest and trustworthy intermediary firm would be reduce than monitoring and enforcement costs that exporters would have expended via direct export. The result of this study cannot be found the significant association between specialisation/ trustworthiness and the competence to reduce clients' monitoring and enforcement costs.

However, interestingly, this study can find the significant positive influence of the negotiation skills on the competence to reduce monitoring and enforcement costs (β= 0.675, p<.001). This, in other words, could explain that the expertise of negotiation of export intermediary firm can foster its competence to reduce clients' monitoring and enforcement costs. When the contract have been signed between manufacturers (exporters) and overseas trading partners, the negotiation skills of export intermediary firm could help to enforce the contractual obligations and ongoing monitoring for the sake of its clients. Therefore, altogether, **Hypothesis 1 is partially supported.**

5.3 The impact of the competence to reduce the clients' transaction costs on the performance of intermediary firm; and the effect of the export intermediary firm's resources on the intermediary's performance.

Table 4 and Table 5 show the regression weights and standardized regression weight. Tables indicate the results of the relationships between the competence to lower transaction costs and performance of export intermediary firm. It can be seen that the significant relationships cannot be found: competence to reduce search costs on export intermediary performance (β= -0.012, p>0.05); competence to reduce negotiation costs on export intermediary performance (β= 0.218, p>0.05); competence to reduce monitoring/enforcement costs on export intermediary performance(β= -0.123, p>0.05). This leads to the **rejection of the Hypothesis 2.** This differs from the findings of Suwannarat (2016a, 2016b) that he finds significant association of all pairs of relationships between competence to reduce transaction costs and export intermediary performance. This difference may come from the closely association of independent variables (resources and competence to reduce transaction costs), but still be in the accepted range, and the simultaneous estimation of multiple relationships among observed constructs. This may trigger to the elimination of the influence of the competence to reduce transaction costs on export intermediary performance by export intermediary firm's resources (export knowledge, negotiation skills, and specialisation and trustworthiness).

A number of international business researchers (Cosimano, 1996: Peng, Ilinitch and Hill, 1998; Peng and York, 2001) argue in this respect that the export intermediary firms' likelihood of being selected and retained by exporters depend on whether these export intermediary companies can assure their

exporters (clients) that the transaction cost of exporting operation run by intermediary firms will be reduce than those costs that clients would have incurred if this function is operated by the exporters themselves. In other words, intermediaries that can help reduce these transaction costs will be sought by the clients since these intermediaries can produce a better and tighter deal, which reduces the probability of export failure (Cosimano, 1996; Peng and Ilinitch, 1998). Consequently, the more clients, the better performance of intermediary firms.

Also, Table 4 and Table 5 show that the intangible resources of the export intermediaries: the export knowledge, negotiation skills, and specialisation and trustfulness, have positive effects on their performance significantly (β= 0.422, p<.01; β=0.816, p<0.001, β= -0.380, p<.05). This result indicates that export intermediary firms with greater the intangible resources in terms of the export knowledge and negotiation skills appear to have the better performance, whilst the specialisation and trustworthiness shows the opposite direction: the greater specialisation and trustworthiness, the lower performance. Perhaps, this could be the interesting outcome especially in the issue of corporate governance of intermediary firm since the findings imply that the lower the trustworthiness, the higher performance of export intermediary firms. The deliberate opportunistic behaviors (Williamson, 1985) of agents may result in the better performance of them. Hence, the above outcomes are partially consistent to those in the literature of export intermediaries, especially the determinants of the performance of intermediary firms. The export knowledge, negotiation skills, and specialisation and trustfulness are commonly regarded as the intangible resources and cannot be easily replicated (Barney, 1991; Barney and Hansen, 1994); they could enhance the competitiveness of the firm and, accordingly, improve the firm performance (Peng and York, 2001: Suwannarat, 2016a, 2016b). Hence, the **Hypothesis 3 is partially supported.**

5.4 The Mediating Effect of the Competence to Reduce Transaction Cost

According to data in Table 4 and Table 5, as mentioned earlier, it can be seen that there is no significant direct relationship between competence to reduce transaction costs and performance of export intermediary firm. Hence, it can be interpreted that the relationship between resources and performance of export intermediary firms is not mediated by the competence to reduce transaction costs (search costs, negotiation costs, and monitoring and enforcement costs). This result differs from that of Suwannarat (2016a) that can find the partial mediating impact of the competence to reduce transaction cost via the SPSS regression analysis, whilst this study simultaneously runs the relationship analysis of all variables via AMOS. This different data analysis technique may contribute to this dissimilar result. Therefore, **Hypothesis 4 cannot be accepted.**

Table 3: The result of the Overall Model Fit Test

Default Model

Chi-square = 2.779

Degrees of freedom = 4

Probability level = .595

RMSEA

Model	RMSEA	PCLOSE
Default model	.000	.696

SRMR, GFI

Model	SRMR	GFI
Default model	.027	.992

Baseline Comparisons

Model	CFI
Default model	1.000

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	24	2.779	4	.595	.695

HOELTER

Model	HOELTER .05
Default model	325

Table 4: The Results of the Regression Weights

			Estimate	S.E.	C.R.	P
ALCSC	<---	Export_Knowledge	.080	.105	.757	.449
ALCNC	<---	Negotiation Skills	.536	.112	4.763	***
ALCME	<---	Specialisation	-.171	.132	-1.298	.194
ALCME	<---	Negotiation Skills	.675	.137	4.929	***
ALCSC	<---	Specialisation	.345	.121	2.862	.004
Performance	<---	ALCSC	-.012	.127	-.094	.925
Performance	<---	ALCNC	.218	.130	1.685	.092
Performance	<---	ALCME	-.123	.124	-.995	.320
Performance	<---	Export Knowledge	.422	.138	3.058	.002
Performance	<---	Negotiation Skills	.816	.182	4.480	***
Performance	<---	Specialisation	-.380	.171	-2.228	.026

***p<0.001

Table 5: The Results of the Standardized Regression Weights

			Estimate
ALCSC	<---	Export Knowledge	.064
ALCNC	<---	Negotiation Skills	.373
ALCME	<---	Specialisation	-.123
ALCME	<---	Negotiation Skills	.509
ALCSC	<---	Specialisation	.254
Performance	<---	ALCSC	-.011
Performance	<---	ALCNC	.223
Performance	<---	ALCME	-.116
Performance	<---	Export Knowledge	.314
Performance	<---	Negotiation Skills	.580
Performance	<---	Specialisation	-.257

Table 6: The Results of Direct Effects

	Specialisation	Negotiation Skills	Export Knowledge	ALCM	ALCN	ALCS
ALCME	-.171	.675	.000	.000	.000	.000
ALCNC	.000	.536	.000	.000	.000	.000
ALCSC	.345	.000	.080	.000	.000	.000
Performance	-.380	.816	.422	-.123	.218	-.012

Table 7: The Results of Indirect Effects

	Specialisation	Negotiation Skills	Export Knowledge	ALCM	ALCN	ALCS
ALCME	.000	.000	.000	.000	.000	.000
ALCNC	.000	.000	.000	.000	.000	.000
ALCSC	.000	.000	.000	.000	.000	.000
Performance	.017	.034	-.001	.000	.000	.000

Table 8: The Results of Total Effects

	Specialisation	Negotiation Skills	Export Knowledge	ALCM	ALCN	ALCS
ALCME	-.171	.675	.000	.000	.000	.000
ALCNC	.000	.536	.000	.000	.000	.000
ALCSC	.345	.000	.080	.000	.000	.000
Performance	-.363	.850	.421	-.123	.218	-.012

6. Theoretical And Managerial Contribution

This study focuses on the competence to reduce the transaction costs of the export intermediary firms. It has made a number of valuable contributions to the literature and has achieved its objectives.

Firstly, this research has provided a new insight of the determinants of the export intermediary firms. It integrates three complementary theoretical approaches. Also, this study has made further contribution to the literature by analysing the data with structural equation modelling (SEM) techniques in order to ascertain the relationships of each variable in model simultaneously. This is the first attempt for the study in this issue in order to fill the knowledge gap in the literature. Thirdly, this study focuses on the direct, indirect, and total effects of determinants of export intermediary performance. To date, a few researches have been conducted in this issue. Accordingly, this provides new data and empirical insights into the study of export intermediary firms.

Also, present and future export intermediary firms could benefit from this study. Unique resources such as export knowledge, negotiation skills, and specialisation and trustworthiness, which

can only be developed over a considerable period of time, appear to be key factors in enabling them to reduce their clients' transaction costs and hence in improving their performance. Any export intermediary firm without substantial export knowledge and skills is obviously at a severe competitive disadvantage. Manufacturing executives and policy makers may also benefit from the findings of the study, since an awareness of the determinants of the performance of export intermediary firms will facilitate selection. Intermediaries' competence to reduce transaction cost is difficult for exporters to verify other than by examining their track records (Peng and York, 2001).

7. Limitation And Future Directions

The first limitation is the lack of support for the set of Hypothesis 2 and Hypothesis 4. The competence to reduce transaction costs has been expected to have the positive impact on the export intermediary performance, and the competence to reduce transaction costs has also been anticipated as the mediator that mediates the relationship between intangible resources (export knowledge, negotiation skills, and specialisation and trustworthiness) and export intermediary performance. However, this does not appear to be the case. Perhaps, other external factors beyond this study may influence this relationship such as foreign exchange rate, business cycle, and so forth. As well, a much larger sample size might have generated different results when using such causal modelling data analysis techniques analysis. Ideally, future research could be conducted on a larger scale by a research team in order to compare the results with this study. Also, this study has shown the similar and different outcomes compared to those from the literature that using different analysis method (e.g., multiple regression). Future studies are encouraged to conduct the comparative study to compare the results of this study with those that use the same and different techniques.

Finally, future study could be employed a matched-sample design, comparing and contrasting the performance of two samples of comparable exporters (clients); one using export intermediaries and the other adopting a direct export strategy in order to demonstrate whether the principal's export performance is actually improved by employing export intermediaries.

8. Conclusions

This study has focused on the determinants of export intermediary firms via structural equation modelling (SEM), which the relationships of each variable in model have been analysed simultaneously. This is the first attempt in this issue in order to fill the knowledge gap in the literature. The findings indicate that model of the study has good fit to the empirical data. Also, it can be seen that the greater the export intermediary firms possess resources, the higher the competence to reduce clients' transaction costs, and eventually the better the performance of export intermediary firms. However, the study cannot find the mediating role and direct effect of the competence to reduce clients' transaction costs on the performance of export intermediary firms. Future research is encouraged to be conducted with the same and different

statistical analysis techniques to this study in other ASEAN countries in order to compare its outcomes with this study. Also, to confirm the role of export intermediary firms, future study is also encouraged to be employed a matched-sample design, comparing and contrasting the performance of two samples of comparable exporters (clients); one using export intermediaries and the other adopting a direct export strategy.

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