CHANNEL CHOICE IN FOREIGN MARKETS: CAPABILITIES AND TRANSACTION COST APPROACHES

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ABSTRACT

Many manufacturers are seeking business in international markets in the context of mature domestic markets. The selection of an appropriate channel represents an important choice for such manufacturers. According to previous studies on this subject (e.g., Anderson and Coughlan, 1987; Klein, Frazier, and Roth, 1990; Aulakh and Kotabe, 1997), this decision involves two key issues: channel integration and channel control. In other words, will the product be distributed by the manufacturer's own sales force or by independent intermediaries? Second, when independent intermediaries are used, do they work exclusively for that particular manufacturer?

This subject is among the most-debated issues related to channels of distribution and international business fields of study. During the past two decades, transaction cost theory (Williamson, 1975, 1985, 1999) has constituted an approach to examining this issue. Transaction cost theory focuses on opportunism and bounded rationality in the realm of transactions and shows that asset specificity (or the transaction specificity of assets) and uncertainty have positive effects on the degree of channel integration or control. However, there are some limitations to this approach. Specifically, this approach can explain only one of the two issues pertaining to channel choice and empirical results suggest an ambiguous causal relationship between uncertainty and the degree of channel integration or control. As a result, capabilities theory (Langlois and Robertson, 1995; Langlois and Foss, 1999; Langlois, 2003), which addresses the limitations of transaction cost theory, has been developed. Capabilities theory addresses bounded rationality in the realm of production and shows that the idiosyncrasy (tacitness or stickiness) of productive knowledge has a positive effect on the degree of integration and that uncertainty has an indirect negative effect on the degree of integration.

This study develops and tests a causal model that combines capabilities theory with transaction cost theory to more adequately explain channel choice in foreign markets; this study explores these issues by focusing on channel choice at the wholesale level. This study is unique in two respects. First, I provide a conceptual model of the two-stage decision-making process by which the management of the manufacturer determines whether to engage in wholesale activities directly or to use partners (Stage 1). Next, if partners are used, the model determines the level at which such partners will be controlled (Stage 2). I hypothesized that capabilities theory would be better able to explain the former, whereas transaction cost theory would be better able to explain the latter. Second, I separate uncertainty into two types (product-related uncertainty, associated with capabilities theory, and wholesale-related uncertainty, associated with transaction cost theory) and argue that each type has a different effect on channel choice in foreign markets.

More specifically, this paper uses capabilities theory to demonstrate that the degree of channel integration is influenced positively by the idiosyncrasy of product knowledge and that the idiosyncrasy of product knowledge is influenced negatively by product-related uncertainty. In addition, the paper uses transaction cost theory to show that the degree of channel control is influenced positively by the specificity of wholesale service and by wholesale-related uncertainty. These hypotheses address the limitations of the transaction cost approach. The hypotheses are empirically tested using structural equation modeling on survey data obtained from foreign division managers of Japanese manufacturers. The results of the empirical analysis provide support for these hypotheses.

References are available upon request