An Empirical Assessment on the Issue of Conflict between Italian Importing Firms and Turkish Exporting Firms in Channels of Distribution

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The study is based upon the test of hypotheses of conflict that might occur between Italian importing firms and Turkish exporting firms. Pricing issues were found out to be the highest variable of conflict between Italian importing and Turkish exporting firms at the end of the research conducted between July-August 1995. On the other hand, it was also revealed that the textile products imported by Italian firms from Turkey for years were subject to less conflict on "exchange of information, product quality, payment terms, promotion, sales efforts, future of business, friction in the relationship, inconsistent obligations in the relationship, and deceitful behavior in the relationship" than the textile products imported for a short period of time. In the light of these findings, conflict was determined to be inescapable in the importer-exporter or buyer-seller relationships.

1. Introduction

There is always a critical question to be answered for firms attempting to introduce their products to a foreign market. It is clearly understood that this question is simply related to the selection of one of the foreign market entry modes. A review of international marketing literature suggests that firms experience different internationalization modes or foreign market entry modes such as exporting, joint venture, management contract, or franchising. Since exporting does not require high resource commitment, firms consider exporting the least risky

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internationalization mode for their foreign market expansion. In addition, firms prefer to possess experiential knowledge concerning foreign markets for the purpose of minimizing market uncertainty. In this connection, it can definitely be stated that exporting has become dominant form of internationalization for firms in both developed and developing countries.

Empirical evidence from export marketing literature reveals that intellectual contribution to literature has focused upon export initiation, export strategies, export development processes, firm size, export market experience, and conflict. Although importing and exporting firms experience conflict on many issues, export marketing literature does not provide satisfactory and beneficial findings on the issue of conflict. In particular, Italy and Turkey are involved in the import-export activities of textile products where Turkey is typically an example of a developing European country, and Italy is a developed country in Europe. The Italian textile market is one of the most significant markets in the world where high competition exists. Italian importing and Turkish exporting firms might face and suffer from specific problems when and after the textile products have been imported to Italian market. These problems, which are generally observed and experienced by importing and exporting firms, result in conflict. Furthermore, conflict is inevitable in the buyer-seller or importer-exporter relationships.

The purpose of this paper is to investigate conflict between Italian importing firms and Turkish exporting firms. In the light of this purpose, the study begins with the discussion of theoretical background and literature review pertaining to internationalization modes, power, and conflict followed by previous research findings, leading to research hypotheses, research methodology, and results. The findings of the research are then discussed in detail in the context of the export marketing literature by citing conclusions and implications for the importing and exporting firms.

2. Theoretical Background and Literature Review

2.1. Modes of Internationalization

The entry mode choice is one of the most critical decisions in international marketing. Firms take into consideration different types of internationalization modes for the purpose of making that significant and critical decision (Zhao and Olsen, 1997; Üner and Karatepe, 1996; Agarwal and Ramaswami, 1992; Kim and Hwang, 1992; Erramilli, 1991, 1990; Hill, Hwang, and Kim, 1990; Contractor, 1990; Contractor and Lorange, 1988; Vandermerve and Chadwick, 1987; Root, 1987).
Broadly speaking, it is possible for internationalization modes to be classified on a continuum base (Zhao and Olsen, 1997). At the one end, wholly owned subsidiaries take place. A wholly owned subsidiary is considered the most risky mode of internationalization for firms from political and market risk points of view owing to a maximum level of resource commitment. Even if time consuming effort is inescapable for this internationalization mode, full presence and highest level of control on operations is obtained. At the other end, exporting takes place. Due to the fact that exporting provides firms with the lowest level of resource commitment, it is regarded as the least risky way of internationalization (especially indirect exporting). It should be emphasized that firms who prefer to commence internationalization by exporting are provided with minimum level of control on operations. On the other hand, in the middle of continuum base contractual agreements such as majority, minority, and equity joint venture, licensing, and management contracts exist. Contractual agreements not only stipulate different levels of resource commitments but also different levels of control on operations. Furthermore, it is essential to state that not every contractual mode can be experienced by firms which attempt to internationalize. Root (1987: 87) points out that "a company cannot use licensing as an entry mode unless it possesses technology, trademarks, or a company name that is attractive to potential users. For companies lacking these assets, licensing is simply not an entry option."

Firms always perceive internationalization as a very risky strategy since they lack acquisition of related knowledge. In other words, these firms try to minimize international market and political risks in lieu of maximizing control over international marketing operations. That's why, exporting is attractive to many firms as the best entry mode or internationalization strategy (Root, 1987: 53). Moreover, a review of export marketing literature reveals the fact that export operations are of great importance to the firm's advancement to other forms of international business such as licensing, joint ventures, or wholly owned production abroad (Root, 1987; Buckley, 1979).

There is a considerable array of definitions for exporting that has been identified by international marketing academicians. Among those definitions most significance can be given as below:

-Exporting is the transfer of goods or services across national boundaries using indirect or direct methods (Young et al., 1989).

-According to Piercy (1982: 4), exporting is "the inclusion of direct sales from the home market to foreign users, distributors or agents, and the use of the various forms of joint venturing to establish overseas marketing subsidiaries."

-In addition to these definitions, Albaum et al. (1989: 4) defines exporting as "selling to foreign markets."
Since exporting is considered to be the least risky mode of internationalization when compared with other modes, many international marketing scholars have tried to conceptualize internationalization process by the use of different models (Crick, 1995; Rao and Naidu, 1992; Lim, Sharkey, and Kim, 1991; Moon and Lee, 1990; Johanson and Vahlne, 1990; Barrett and Wilkinson, 1985; Cavusgil, 1984; Czinkota, 1982; Reid, 1981; Wortzel and Wortzel, 1981; Cavusgil, 1980; Wiedersheim-Paul, Olson, and Welch, 1978; Bilkey and Tesar, 1977; Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975). All of these export development models are based upon a behavioral approach, regarding internationalization as an evolutionary and sequential process, assuming that export activity develops from a series of incremental decisions. With respect to export development models, Leonidou and Katsikeas (1997: 527) explicitly underlines that “these models are largely attributable to the interplay between the development of experiential knowledge of foreign markets and operations, and the increasing commitment of organizational resources, on the other.” Except for initiating mechanism either external (push mechanism) or internal (pull mechanism), “the differences between the models seem to reflect semantic differences rather than real differences about the nature of the internationalization process” (Anderson, 1993: 212). In other words, except for initiating mechanism, the difference among export development models occurs between stages and descriptions (Crick, 1995).

Most of the export development models expounded above indicate psychic distance as a common key concept. In this respect, psychic distance can be defined as “factors preventing or distributing firms learning about and understanding a foreign environment, and has been viewed as the degree to which a firm is uncertain about foreign market, and the internationalization process” (O’Grady and Lane, 1996: 313).

Finally, firms, which have adequate objective and market-specific experiential knowledge concerning foreign markets and international marketing operations, commence to experience higher stages of export development process including greater involvement than initial stages.

2.2. Two Interrelated Concepts: Power and Conflict

The phenomena of power and conflict in marketing channels have been recognized increasingly both separately and as a joint occurrence by marketing scholars since they are of utmost importance to any firms producing goods and services (Dant and Schulz, 1992; Katsikeas, 1991; Kale and McIntyre, 1991;

Power and conflict are two concepts which can be regarded as dependent and independent variable. Obviously, empirical studies in the field of marketing channels have consistently assumed power to be the causative factor with reference to conflict (Gaski, 1984: 12).

Broadly speaking, it is possible to encounter several definitions of power in the marketing literature. According to one definition given by Wilemon (1972), "power refers to the ability of one channel member to induce another channel member to change its behavior in favor of the objectives of the member exerting influence." In addition to definition above, Wilkinson (1974) states that "power can be thought as the ability of a firm to affect another's decision making and/or overt behavior."

When the term power is considered to be defined from the perspective of importing-exporting firms, it is the exporting firm's ability to control the decision variables in the marketing strategy of importing firm of the channel at a different level of distribution (Gaski, 1984). In other words, El-Ansary and Stern (1972) expounds that "the power of a channel member (an exporting firm) is his ability to control the decision variables in the marketing strategy of another member (importing firm) in a given channel at a different level of distribution. For this control to qualify as power, it should be different from the influenced member's original level of control over his own marketing strategy."

Moreover, with respect to the question of power in marketing channels, power and power bases can be adapted to marketing channels by taking into account the power typology (reward power, coercive power, legitimate power, referent power, expert power, and information power) introduced by French and Raven (1959). From the perspective of this view, the power of the exporting firm over the importing firm depends on the bases of power that the importing firm perceives the exporting firm to have available (Brown, Lusch, and Muehling, 1983: 55).

As for the issue of conflict, it has largely grown and developed in social psychology (Katsikeas, 1991: 807). Naturally, this has proposed several definitions of conflict to literature. One of the definitions of conflict is as follows:

"Conflict is tension between two or more social entities (individuals, groups, or larger organizations) which arises from incompatibility of actual or desired responses" (Raven and Kruglanski, 1970: 70).
Furthermore, Pondy (1967: 300-5) classifies the term conflict into five stages: latent conflict, perceived conflict, felt conflict, manifest conflict, and conflict aftermath. The latent conflict occurs when there are underlying sources of conflict such as role deviance, poor communications, or goal incompatibility (Gaski, 1984: 11; Brown, Lusch, and Muehling, 1983: 58). The perceived conflict is available when individuals perceive conflict under the nonexistence of conditions of latent conflict. As to felt conflict, it comprises the feelings of stress, tension, disaffection, hostility, or anxiety. Manifest conflict takes place when one individual prevents the other from achieving his or her goals. Finally, conflict aftermath expresses resolution or suppression at the end of or after conflict.

With respect to the several definitions of conflict in marketing channels, channel conflict is present when the importing firm perceives the behavior of exporting firm to obstruct the accomplishment of its goals / the effective performance of its instrumental behavior patterns or vice versa (Etgar, 1979: 61-2). Apart from the definition above, Stern and El-Ansary (1977: 283) defines the channel conflict as "a situation in which one channel member (importing firm) perceives another channel member (exporting firm) to be engaged in behavior that is preventing or impeding him from achieving his goals."

On the other hand, Palamountain (1969) isolates three kinds of distributive conflict in marketing channels: horizontal, intertype, and vertical. The horizontal channel conflict exists when there is conflict between members at the same level within the channel (Kotler, 1997: 553). The intertype channel conflict is seen in a situation where there exists conflict between members of different kinds within the same channel (Katsikeas, 1991: 807). The vertical channel conflict occurs when there exists conflict between different levels within the same channel (Doyle, 1998: 337). In addition to Palamountain's classification, multichannel conflict also exists when a manufacturer creates two or more separate channels for the purpose of serving a market (Doyle, 1998; Kotler, 1997).

It has already been stated that conflict is indispensable in marketing channels (Gaski, 1984: 11). Hence, conflict can be considered to be essential dimension in the analysis of importing firm-exporting firm relationships (Katsikeas, 1991: 808).

2.3. Empirical Evidence from Previous Research

As has been noted before, it is widely a well-known fact that exporting is an attractive internationalization and expansion strategy (Katsikeas and Morgan, 1994:
17). Furthermore, internationalization theory suggests that exporting firms operating in a specific overseas market will have reasonable business opportunities thanks to knowledge attained from previous experience, and consequently this will encourage exporting firms to continue their export activities in the internationalization process (Johanson and Vahlne, 1990).

It is also clearly mentioned that exporting firms lacking experiential knowledge would have more export uncertainty (Katsikeas and Morgan, 1994; Agarwal and Ramaswami, 1992). The negative effects of market uncertainty might consist of conflict occurring between importing firm and exporting firm. By contrast, exporting firms owning high levels of experiential knowledge would have less market uncertainty (Madsen, 1989; Welch and Luostarinen, 1988; Davidson, 1983), and thus less conflict in marketing channels. Therefore, it can strongly be claimed that differences would be observed among exporting firms on the basis of export competitive advantages concerning export market experience (Katsikeas, 1994; Cavusgil and Naor, 1987).

Denis and De Pelteteau (1985) in their research reached a conclusion regarding the expansion of new and experienced exporting firms that experienced exporting firms’ export volume increased and came to represent a greater share of its total sales by the help of learning process. For that reason, it can definitely be concluded that as the degree of international experience increases, the degree of export expansion of firms goes up.

On the other hand, Hunt and Nevin (1974) investigated power sources, power, and satisfaction over fast food franchises, and found out that the use of noncoercive sources resulted in high franchisee satisfaction when compared with the use of coercive sources.

Exploring the price factor that might cause conflict between importing firm and exporting firm, Munro and Beamish (1987) found out that the main area of conflict focused on pricing issues. Beside price-related issues, it was also revealed that compensation, after-sales services, inventory levels, and promotional issues emerged as conflict variables.

According to another research conducted to examine firm characteristics between indigenous Greek food exporting manufacturers and overseas distributors in the European Union, it was revealed that competitive pricing was the export competitive advantage dimension (Katsikeas, 1994: 45). What is more, this research finding is consistent with previous findings which have been obtained by academicians in less-industrialized countries (Katsikeas and Piercy, 1990; Karafakioğlu, 1986).
3. Hypotheses

Italy is typically an example of a developed European country absorbed in import activities from different number of overseas countries. On textile market basis, Italian textile market is considered to be one of the most significant markets where high competition exists. Moreover, firms, which operate under conditions of high competition, are obliged to innovation and competition-based pricing in order to be capable of keeping and expanding their market shares.

As has clearly been demonstrated by export marketing literature, price generally plays a critical role in the performance of firms. In other words, the relationship between importing firms and exporting firms is subject to high levels of conflict when price turns out to be an essential issue. More specifically, it can be stated that textile products imported by Italian firms bring about conflict on price-related issues.

On the basis of the argument made above, the first hypothesis is put forward as follows:

**H1**: The degree of conflict is high where price is a critical factor between Italian importing firms and Turkish exporting firms.

On the other hand, it is already known that internationalization is a learning process for firms which intend to operate in foreign markets. This learning process begins with export activities of firms, and might continue with the other forms of internationalization. No matter which internationalization mode firms prefer, the possession of experiential knowledge pertaining to investment opportunities, consumers’ profiles, political and market risks, and the like is a critical factor about foreign markets. Furthermore, the products that have been imported formerly are subject to less conflict than the products imported lately.

As far as the market experience and knowledge development are concerned, the second hypothesis can be formulated as follows:

**H2**: The textile products imported by Italian firms from Turkey for years are subject to less conflict than the textile products imported for a short period of time.
4. Methodology

Italian importing firms trading with Turkish exporting firms constituted the field study of this research. The reason why Italian market has been selected as the focus of the research is that the Italian textile industry is considered one of the most important industries in Europe.

A survey questionnaire including 14 questions was prepared with independent variables of conflict such as exchange of information, product quality, pricing issues, payment terms, distribution, promotion, sales efforts, misunderstanding, conflict resolution, future of business, friction in the relationship, disputes in the relationship, unreasonable demand in the relationship, broken promises in the relationship, inconsistent obligations in the relationship, and deceitful behavior in the relationship. The questionnaire was also pretested to make sure that it was as much reliable as possible.

The sampling frame of Italian importing firms trading with Turkish exporting firms was formed from the annually books of Ance-Associazione Nazionale Commercio Estero and Guida-Bella Industria Cotoneiera Del Lino e Fibre Affini. 300 Italian importing firms were chosen randomly in the context of this research. Finally, the survey questionnaires were mailed to these Italian importing firms. Unfortunately, a total of 24 Italian importing firms returned the questionnaires and provided the essential information which indicated low response rate. In addition, it should be stressed here that this low response rate is the most significant limitation of the study.

For the statistical analysis of the research in SAS Software, arithmetic mean, standard deviation, sign test, and following formula were applied:

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\text{Degree of conflict} = \text{Frequency of conflict} \times \text{Intensity of conflict},
\]

where frequency of conflict represents how frequent Italian importing firms encounter conflict, and intensity of conflict represents at what intensity Italian importing firms experience that conflict.

5. Results and Discussion

The results of the research concerning the two hypotheses are shown in Table I.

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(1) Some of the independent conflict variables used in the research conducted by Katsikas (1991) formed the independent conflict variables of the present research.

(2) Because the sample available in the research was dependent, t-test could not be conducted.
Table I. Perception of Conflict by Italian Importing Firms Trading with Turkish Exporting Firms

<table>
<thead>
<tr>
<th>Type of Conflict Variable</th>
<th>First Textile Products³</th>
<th>Final Textile Products⁴</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N</td>
<td>Mean</td>
</tr>
<tr>
<td>Exchange of Information</td>
<td>24</td>
<td>3.54</td>
</tr>
<tr>
<td>Product Quality</td>
<td>24</td>
<td>4.75</td>
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<tr>
<td>Pricing Issues</td>
<td>24</td>
<td>5.96</td>
</tr>
<tr>
<td>Payment Terms</td>
<td>24</td>
<td>3.33</td>
</tr>
<tr>
<td>Distribution</td>
<td>24</td>
<td>2.88</td>
</tr>
<tr>
<td>Promotion</td>
<td>22</td>
<td>1.77</td>
</tr>
<tr>
<td>Sales Efforts</td>
<td>23</td>
<td>1.96</td>
</tr>
<tr>
<td>Misunderstanding</td>
<td>24</td>
<td>4.04</td>
</tr>
<tr>
<td>Conflict Resolution</td>
<td>22</td>
<td>3.14</td>
</tr>
<tr>
<td>Future of Business</td>
<td>24</td>
<td>2.46</td>
</tr>
<tr>
<td>Friction in the Relationship</td>
<td>24</td>
<td>2.79</td>
</tr>
<tr>
<td>Disputes in the Relationship</td>
<td>24</td>
<td>2.58</td>
</tr>
<tr>
<td>Unreasonable Demand in the Relationship</td>
<td>24</td>
<td>2.63</td>
</tr>
<tr>
<td>Broken Promises in the Relationship</td>
<td>24</td>
<td>2.75</td>
</tr>
<tr>
<td>Inconsistent Obligations in the Relationship</td>
<td>24</td>
<td>1.79</td>
</tr>
<tr>
<td>Deceitful Behavior in the Relationship</td>
<td>24</td>
<td>1.46</td>
</tr>
</tbody>
</table>

As is illustrated in Table I, the first hypothesis (H1) is supported having an arithmetical mean of 5.96 for the first product with a standard deviation of 3.92, and 8.13 for the final product with a standard deviation 3.65. For both the first and final products, the degree of conflict concerning pricing issues has been found out to be

³ They represent the textile products imported by Italian firms for a long time.
⁴ They represent the textile products imported by Italian firms within a short period of time.
⁵ Because the number of respondents (firms) remained at 24, contingency tables could not be conducted.
the highest between Italian importing and Turkish exporting firms when compared with the other types of conflict variables. However, it should be noted here that the standard deviations have been calculated high. Therefore, more research is needed for the first hypothesis to be supported.

On the other hand, the types of conflict variables formed to test the second hypothesis (H2) revealed that exchange of information, product quality, payment terms, promotion, sales efforts, future of business, friction in the relationship, inconsistent obligations in the relationship, and deceitful behavior in the relationship provided significant results for proof. In spite of the fact that the other types of conflict variables included in the research such as distribution, misunderstanding, disputes in the relationship, and broken promises in the relationship did not support the second hypothesis, the application of the sign test at the 5% level of significance resulted in the acceptance of the second hypothesis.

The present research finding conducted between Italian importing firms and Turkish exporting firms supports export marketing literature which puts an emphasis upon price-related issues that might bring about conflicts among firms.

Since this research has lacked adequate number of Italian firms involved in the study, it should be repeated with a proper revision of conflict variables.

6. Conclusions and Implications

Firms regard exporting as the least risky way of internationalization since they attempt to minimize foreign market uncertainty. Beginning internationalization with exporting also gives rise to conflict in the importer-exporter or buyer-seller relationships. The conflict variables, as has been revealed by export marketing literature, might consist of pricing issues, payment terms, promotion, future of business, and the like. An encouraging conclusion can strongly be claimed and drawn from empirical evidence of export marketing literature that conflict is inevitable in importer-exporter relationships in distribution channels.

The available evidence derived from the present research demonstrates that Italian importing firms have experienced pricing issues as the highest conflict variable. In other words, the degree of conflict is high where price is a critical factor between Italian importing firms and Turkish exporting firms. The other finding of the research reveals that the textile products imported by Italian firms from Turkey for years are subject to less conflict than the textile products imported for a short period of time. This finding does not specifically imply that importing firms will always experience conflict for textile products imported for a short period of time. Moreover, it is particularly significant to state here that circumventing existing and potential conflict will provide Italian importing firms and Turkish exporting firms with better commercial activities in distribution channels, and thus more reliable and less uncertain internationalization operations.
The major implication of the present study is that researchers who are interested in distribution channels and especially in export marketing should direct more empirical studies to importer-exporter relationships from both developed and developing countries in order to analyze the conflict and to argue it better. Here an attempt has been made to investigate conflict between importing firms from a developed country and exporting firms from a developing country.

Another implication is that price-related issues are to be searched deeply in the overall trading activities of importing and exporting firms. More empirical research is needed to support the results of the study.

Bibliography


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