Choosing Research Articles and Research Brief Writers

The volume of new published research in our field is enormous. No academic, much less a busy executive, can possibly keep up with it all. For inclusion in these briefs, we seek out the research that is best and most relevant to the practicing executive. Our goal is to keep you up to date on what the most current research has to tell us about managing. If you would like to suggest research articles or would like to serve as a research briefs contributor, please contact Dean McFarlin, Research Briefs Editor, at mcfarlin@udayton.edu.

Using Trading Firms to Export: What Can the French Experience Teach Us?

Robert Isaak, Pace University

Trading firms have been a fixture in international commerce for centuries. In fact, such firms (sometimes referred to as export intermediaries) often account for a sizeable slice of a country’s international trade. Yet for a variety of reasons, their role in the exporting process is poorly understood.

France offers an interesting context within which to explore the role of trading firms in international business. Of course, France is an important player in the global economy. Not surprisingly, thousands of French companies export their products to a wide range of markets, sometimes relying on trading firms in the process. So what can the French experience teach us about the use of trading firms? Do French companies have a recipe for exports that covers the costs—a recipe that involves trading firms?

A recent study on export intermediation by Harald Trabold of the German Institute for Economic Research (DIW Berlin) provides some answers. The study sheds light on the markets and conditions under which French firms are more likely to use trading firms to handle exporting. It also illustrates the fact that in certain situations, French firms tend to handle the exporting process themselves. But what is it, exactly, that distinguishes these two outcomes? Does it have something to do with the nature of the markets that French firms want to serve as well as the nature of products being exported?

Trabold’s research is aimed at filling this gap in our knowledge. Specifically, he empirically tested two fundamental propositions developed in the literature. The first is that trading firms are more likely to be used by manufacturers when they are exporting to distant, unfamiliar markets. Why? The idea here is that in unfamiliar markets, it’s cheaper for manufacturers to turn to trading firms than to handle the export process directly (i.e., to do costly market research, handle negotiations, etc.). The second proposition focuses on the products being exported. It argues that when exported products have a high “commodity content” (i.e., are fairly standardized, with little R&D “value-added”), manufacturers are likely to use trading firms. If the process of exporting commodities is simpler and less costly than for “differentiated” products, then manufacturers should be more willing to turn exporting over to trading firms.

In unfamiliar markets, it’s cheaper for manufacturers to turn to trading firms than to handle the export process directly.

Based on an impressive data set from French firms, Trabold found much better support for the second proposition than for the first. Using information gleaned from customs declarations, Trabold accounted for 94 percent of French exports for the years 1985, 1988, and 1990 (a total comprising some 20,000 exporters annually). These data included all French firms with annual exports of at least 600,000 francs (about $100,000). Granted, micro-exporters were excluded. Still, the data set was incredibly comprehensive and provided an excellent platform for solid empirical conclusions.

That said, Trabold’s study paints a complex picture. In part, this may be due to the challenges Trabold faced in conducting his research. For example, to examine how distance impacted French firms’ decisions about trading firms, Trabold relied on both geographical and cultural measures of distance. Geographic distance here refers, naturally enough, to the distance from Paris. For cultural distance, Trabold used country clusters that were identified in previous research. France, for instance, should have more in common, culturally
speaking, with countries inside the "Latin European cluster" than with countries outside it.

Nevertheless, one of Trabold's findings was that trading firms actually handled a greater percentage of French exports going to countries within the Latin European cluster (e.g., Italy, Spain) than exports bound for countries in the Germanic (e.g., Germany, Austria) and Anglo clusters (e.g., America, Australia). This result contradicts the first proposition—that French companies are more likely to use trading firms in foreign markets that are culturally and geographically distant. Indeed, it suggests that while French firms may trust intermediaries to handle exports to markets that they know intimately, they feel compelled to handle exports directly when dealing with less familiar German or American markets.

Of course, other interpretations are possible for this apparent contradiction. For instance, German and American markets are also more open than many (i.e., they embrace what Nobel economist Joseph Stiglitz calls market fundamentalism). Consequently, they may be relatively more transparent and easier for French companies to approach directly. Under this line of thinking, using trading firms would be the best option for handling French exports to complex but culturally close countries in the Latin European cluster.

Another possibility is that market size may help explain Trabold's results. German and American markets are larger than their Latin European counterparts. In short, they're arguably more important. As a consequence, French companies may shy away from using trading firms to handle exports to such critical, high-stakes markets. Of course, these and other alternative explanations should be put to the test. Indeed, a key contribution of Trabold's study is that it underscores the need for more research on the role of trading firms in the export process.

---

**French companies may shy away from using trading firms to handle exports to critical, high-stakes markets.**

---

The bottom line, as Trabold points out, is transaction costs—the export-related costs of marketing research, negotiation, monitoring, and so on. Executives want to reduce these costs. And that's where trading firms often fit in. Many French companies clearly believe that using export intermediaries in Latin European markets (e.g., Italy) cuts their long-term transaction costs. On the other hand, French firms tend to feel that controlling the process themselves is more efficient when exporting to markets such as America and Germany.

Interestingly, Trabold also found that the percentage of French exports handled by trading firms peaked when French-speaking countries were the destination. In fact, the percentage of exports to those countries handled by intermediaries was three times as high as when exports were bound for non-French-speaking countries. Once again, this finding contradicts the first proposition tested. The question is why. Although Trabold did not examine it, one explanation may be historical. Trabold's finding may reflect the close connections France has with certain nations that are rooted in old colonial ties. Such connections may make it easier for French firms to trust intermediaries to handle their exports—at least relative to other distant, but less familiar, markets (e.g., in Asia). In any case, it remains for future research to determine whether former colonial ties can actually help explain French firms' use of export intermediaries.

Moving on to the second proposition, Trabold's results showed that the higher the commodity content of their products, the more likely French companies were to use export intermediaries. When the products being exported had little in the way of R&D value-added (e.g., crops, minerals, certain metals and basic chemicals, etc.), French companies could cut their transaction costs by using trading firms. Trabold recognized that his approach to measuring commodity content (i.e., R&D intensity) had limitations. Nevertheless, his results make sense and offer some helpful insights.

Speaking of insights, what can we learn from the French experience with trading firms? On the one hand, if your business manufactures products with high commodity content, then export intermediaries may help maximize economies of scale and reduce transaction costs. On the other hand, you should be extremely discriminating about where to use trading firms in non-commodity businesses. In such cases, you may want to delegate exporting to trading firms only where you 1) know the foreign culture well, or 2) believe the stakes are low enough to turn the exporting process over to someone else. Finally, if the country you're exporting to is open or market-fundamentalist, then it may be best to handle exports yourself. When the rules of the game are clear, it may be easier to win in foreign markets without involving trading firms.

Copyright of Academy of Management Executive is the property of Academy of Management and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.