



UNIVERSITI PUTRA MALAYSIA

**THE INFLUENCE OF FIRM SIZE, MARKETING
STRATEGY AND MARKET RESEARCH ACTIVITIES
ON THE EXPORT PERFORMANCE OF SMALL AND
MEDIUM SIZED MANUFACTURERS IN MALAYSIA**

NOOR AZLIN ISMAIL

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By

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for the Degree of Master of Science**

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TABLE OF CONTENTS

	Page
DEDICATION	2
ABSTRACT	3
ABSTRAK	5
ACKNOWLEDGEMENTS	7
APPROVAL	8
DECLARATION	10
LIST OF TABLES	11
LIST OF FIGURES	13
LIST OF ABBREVIATIONS	14
CHAPTER	
I RESEARCH OVERVIEW	15
Background of the Study	15
An Overview of the Industrial Development in Malaysia	17
Growth Prospects of the Manufacturing Sector	18
Strategies of the resource-based Industries	19
An Overview of Small and Medium Industries (SMI) in Malaysia	22
Definition of SMI in Malaysia	22
Development of SMI in Malaysia	23
Problem Statement	27
Significance of the Study	32
Objectives of the Study	33
Scope of the Study	34
Operational Definition	36
Organization of Thesis	37
II LITERATURE REVIEW	39
Introduction	39
Reasons for a Firm's Involvement in International Market	40
Studies on Modeling of Factors Related to Firm's Decision to Export	41
Determinants of Export Performance	43
Organizational Characteristics	43
Managerial Variables	44
Behavioral Variables	45
External Variables	45
Internal-Uncontrollable Factors	45
External-Uncontrollable Factors	46
Firm Size	47
Marketing Strategy	48
Market Research Activities	49
Firm Size and Export Behavior	50
Firm Size and Its Influence on Export Performance	51

Marketing Strategy	54
Total Standardization Perspective	56
Decision to Standardize Marketing Strategy	56
The Negative Aspects of Standardization	60
Total Adaptation Perspective	62
Decision to Implement an Adaptation Strategy	63
Contingency Perspective	65
The Influence of Marketing Strategy on Export Performance	67
Information Acquisition in Exporting	72
Three Modes of Information Acquisition	73
Market Research Activities	74
Type of Market Research Information Used	75
Type of Information Elements Collected	77
Users and Non-Users of Market Research	78
SMEs and Market Research Activities	80
Informal and Formal Market Research among SMEs	81
The Importance of Formal Market Research among SMEs	82
The Influence of Market Research Activities on Export Performance	83
III THEORETICAL PERSPECTIVES AND RESEARCH HYPOTHESES	88
Introduction	88
Economies Theories	88
Stage Theory of Export Development	89
Export Development Models Based on Stage Theory	90
Structural Characteristics	97
Contribution of Export Development Models	105
Other Theories	106
Resource-Based Theory	106
Eclectic Theory and Transaction Cost Approach	107
Conceptual Framework and Hypotheses	108
Proposed New Model and Hypotheses for the Study	114
Hypotheses of The Study	116
IV RESEARCH METHODOLOGY	119
Quantitative Research Method	119
Research Design	120
Sampling Frame	122
Sampling Design	122
Research Instruments	122
Measurements	123
Measurements of Firm Size	123
Measurement of Marketing Strategy	123
Measurement of Market Research Activities	124
Measurement of Export Performance	125
Method of Data Collection	125

Data Collection	126
Statistical Analysis Procedure	127
Inferential Analysis	128
Structural Equation Medalling (SEM)	128
Reliability Test of Research Instruments	130
Reliability Test for Marketing Strategy and Market Research Activities	131
Validity Test of the Research Instruments	133
V DATA ANALYSIS AND DISCUSSION	136
Companies Profiles	136
Respondents Profiles	138
Descriptive Analysis	141
Firm Size	141
Marketing Strategy	142
Market Research Activities	150
Use of Information Collection Vehicles for Food Industry	151
Types of Market Information Collected	153
The Managerial Use of Information	156
Inferential Analysis-Relationship between Variables	157
Pearson Correlation and nonparametric Correlation	157
Normality Test	158
Multiple Regression Analysis	158
Structural Equation Modeling (SEM)	164
VI SUMMARY, CONTRIBUTIONS AND RECOMMENDATIONS	169
Summary of the Main Findings	169
Contributions of the Study	171
Theoretical Contributions	171
Practical Contributions	175
Limitation of the Study	184
Sample Size	184
Generalization of the Findings	185
Recommendation for Future Studies	186
Conclusion	187
REFERENCES	188
APPENDICES	204
BIODATA OF THE AUTHOR	246



**THIS RESEARCH IS DEDICATED TO ALL SMALL AND MEDIUM
ENTREPRENEURS, ESPECIALLY IN MALAYSIA.**



Abstract of thesis presented to the Senate of Universiti Putra Malaysia in partial fulfilment of the requirements for the degree of Master of Science

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By

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October 2003

Chairman: Associate Professor Samsinar Md. Sidin, Ph.D.

Faculty: Economics and Management

The main purpose of this study is to identify the influence of firm size, marketing strategy and market research activities on the export performance among Small and Medium Industries (SMIs) in Malaysia. Industries involved in this study were food processing (food industry), rubber and related products, and chemical and related products (other industries). The specific objectives of this study were to determine if there is existed a relationship between firm size, marketing strategy and market research activities on the export performance, and how these variables influence the performance among SMI manufacturers in different industry in Malaysia.

A total of two hundred twenty (220) respondents in Peninsular Malaysia are selected as a population for this study. From the number, only 65 sets of questionnaires are usable to be analyzed for the study. The instruments to measure independent and dependent variables are adapted from the studies



done by Wolff and Pett 2000), Shoham (1999), and Hart and Tzoka (1999). SPSS version 11.0 and LISREL Statistical Packages were used to analyze the data of the study.

The finding of this study by using inferential analysis is valid only for food industry. The main reason was due to small sample size from other industries. As such the comparative study for both industries are only valid for descriptive analysis. From the multiple regression result, the study indicates that, for food industry (consumer products), firm size and marketing strategy were found to be negatively related with export performance and market research activities was positively related with export performance.

However, the findings of this study revealed that, the influence of firm size, marketing strategy and market research activities on the export performance vary among the different types of products manufactured; i.e. consumer or industrial products.



Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia
sebagai memenuhi sebahagian keperluan untuk ijazah Master Sains

**PENGARUH SAIZ FIRMA, STRATEGI PEMASARAN DAN AKTIVITI
PENYELIDIKAN PASARAN KE ATAS PRESTASI EKSPORT BAGI
PENGILANG-PENGILANG INDUSTRI KECIL DAN SEDERHANA DI
MALAYSIA**

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Oktober 2003

Pengerusi: Professor Madya Samsinar Md. Sidin, Ph.D.

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Tujuan utama kajian ini dilakukan ialah untuk mengenalpasti sejauhmanakah pengaruh saiz firma, strategi pemasaran dan aktiviti penyelidikan pasaran ke atas prestasi eksport dikalangan pengilang-pengilang industri kecil dan sederhana (IKS) di Malaysia. Industri yang terlibat dalam kajian ini ialah industri perusahaan makanan (industri makanan), getah dan barangan getah serta kimia dan barangan kimia (industri lain). Tujuan-tujuan lain yang khusus ialah untuk memastikan sama ada terdapatnya perhubungan di antara saiz firma, strategi pemasaran dan aktiviti penyelidikan pasaran ke atas prestasi eksport, dan bagaimanakah kesemua faktor-faktor ini boleh mempengaruhi prestasi eksport dikalangan pengilang-pengilang IKS di pelbagai industri yang berbeza di Malaysia.

Sejumlah 220 orang responden di Semenanjung Malaysia telah dipilih sebagai populasi dalam kajian ini dengan menggunakan kaedah temuduga secara perorangan. Daripada jumlah tersebut, hanya 65 borang soal-selidik yang dapat digunakan untuk menganalisa keputusan dalam kajian ini. Model-model yang digunakan adalah berdasarkan kepada model Wolff dan Pett (2000), Shoham (1999) dan Hart dan Tzoka (1999). Teknik statistik yang digunakan bagi menganalisis data dalam kajian ini ialah SPSS versi 11.0 dan LISREL.

Penggunaan kaedah *inferential analysis* hanya sesuai digunakan bagi industri makanan sahaja disebabkan oleh faktor saiz yang kecil bagi industri lain. Oleh itu perbandingan kajian bagi kedua-dua industri tersebut hanya setakat analisa deskriptif. Keputusan *multiple regression* menunjukkan bahawa bagi industri makanan, saiz firma dan strategi pemasaran mempunyai hubungan yang negatif dengan prestasi eksport manakala hubungan adalah positif bagi aktiviti penyelidikan pasaran dan prestasi eksport.

Kajian ini menunjukkan bahawa pengaruh saiz firma, strategi pemasaran dan aktiviti penyelidikan pasaran ke atas prestasi eksport dikalangan pengilang-pengilang IKS adalah berbeza mengikut industri yang terbabit. Faktor ini mungkin disebabkan oleh perbezaan yang wujud dari sudut ciri-ciri industri dan juga jenis produk yang diusahakan (produk pengguna atau produk industri).

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LIST OF TABLES

Table		Page
1.1	Growth of Manufacturing Industries, 1995-2000	17
1.2	Exports of Manufactured Goods, 1995-2000	18
2.1	Stage and Factors Influencing a Firm to Export	42
2.2	A Summary of Findings on the Relationship between Firm Size and Export Performance	54
4.1	Classification of Research Design	121
4.2	Reliability Analysis on Marketing Strategy for Food and Other Industries.	132
4.3	Reliability Test for Market Research Activities for Food And Other Industries	133
4.4	Validity Test for Market Strategy	134
4.5	Validity Test for Market Research Activities	135
5.1	Distribution of the Sample Based on States	137
5.2	Number of Years in Operation	137
5.3	Number of Years in Export Operation for Food and Other Industries	138
5.4	Gender of Respondents	138
5.5	Race of Respondents	139
5.6	Age Group of Respondents	139
5.7	Education of Respondents	140
5.8	Distribution of the Firm Size based on Number of Full Time Employees for Food Industry and Other Industries	141
5.9	Marketing Strategy for Food Industry	143



5.10	Marketing Strategy for Other Industries	144
5.11	Use of Information Vehicles for Food Industry	151
5.12	Use of Information Vehicles for Other Industries	151
5.13	Type of Export Market Elements Collected for Food Industry	153
5.14	Type of Export Market Elements Collected for Other Industries	154
5.15	The Managerial Use of Information for Food Industry	156
5.16	The Managerial Use of Information for Other Industries	156
5.17	Regression Analysis between Firm Size, Marketing Strategy and Market Research Activities on Export Performance for Food Industry (Consumer Products)	159
6.1	Summary of the Findings based on Multiple Regression's Result for Food Industry (Consumer Products)	170
6.2	Proposed of New Strategies on Export Performance for Food Industry (Consumer Products)	176



LIST OF FIGURES

Figure	Page
3.1 Wolff and Pett's Conceptual Framework	108
3.2 Shoham's Conceptual Framework	110
3.3 Hart and Tzoka's Conceptual Framework	112
3.4 Proposed New Conceptual Framework and Hypotheses	115
5.1 Path Diagram for Export Performance, Marketing Strategy and Market Research Activities for Food Industry	165
5.2 Path Diagram for Export Performance, Marketing Strategy and Market Research Activities for Food and Other Industries	167
6.1 The Adjusted Model on the Influence of Firm Size, Marketing Strategy and Market Research Activities on Export Performance for Food Industry (Consumer Products)	174



LIST OF ABBREVIATIONS

AFTA	ASEAN Free Trade Area
AMA	American Marketing Association
ASEAN	Association of South East Asian Nations
CFA	Confirmatory Factor Analysis
EC	European Community
EXPSTRA	Marketing Strategy
FMM	Federal Malaysia Manufacturing
GDP	Gross Domestic Product
GFI	Goodness-of Fit Index
IKS	Industri Kecil Sederhana
IRG	Industrial Rubber Good
IMP2	Second Industrial Malaysia Plan
LISREL	Linear Structural Relations
MATRADE	Malaysia External Trade Development Corporation
MEANEX5	Mean Export for 5 Years
MIDA	Malaysian industrial Development Authority
MKRES	Market Research Activities
NAFTA	North America Free Trade Agreement
NAP3	Third National Agricultural Policy
NR	Natural Rubber
NAFTA	North America Free Trade Agreement
UK	United Kingdom
US	United State
RMSEA	Root Mean Square Error of Approximation
SEM	Structural Equation Modeling
SMEs	Small and Medium Enterprises
SIMs	Small and Medium Industries
SMIDEC	Small Medium Industries Development Corporation
SMIDP	Small and Medium Industry Development Plan
SPSS	Statistical Package for the Social Science
WTO	World Trade Organization



CHAPTER 1

RESEARCH OVERVIEW

This chapter covers an overview of the whole research. It presents the background of the study, an overview of the industrial development in Malaysia, the development of small and medium industries in Malaysia, the problem statement, the objectives of the study and the scope of the study. It also covers the operational definition of the variables in this study.

Background of the Study

As the forces of globalization gain greater momentum, firms in both developed and developing countries are increasingly forced to be outward looking in their business orientation. To assist firms in their internationalization efforts, various export development and promotion programs have been activated as a major stimulus for economic growth (Yeoh and Jeong, 1995).

It is widely accepted that from a company's perspective, exporting is an attractive foreign market entry and expansion alternative mainly for small and medium sized companies (SMEs). This is mainly due to the fact that it does not absorb the resources that overseas site operations generally demand, and therefore it tends to be associated with less risk. Furthermore, when a substantial number of firms open up exporting channels, some of the antecedents to economic development and copying mechanisms for trade deficit problems are in place. As such national governments tend to formulate export oriented trade strategies and develop assistance programs to

encourage export sales to flourish (Katsikeas and Morgan, 1994). Consequently, it is vital that decisions relating to export activities are considered cautiously, given their potential impact on firms' performance and overall national economic welfare.

In the last decades, Malaysia has progressed from a commodity-based producer relying heavily on imports, to a manufacturer of industrial products for export. The importance of local small and medium industries (SMIs)/small medium enterprises (SMEs) is even more significant as Malaysia moves towards realizing its objectives of becoming a fully industrialized nation by 2020.

Rapid globalization of the world economy presents unprecedented challenges as well as opportunities to Malaysian companies, particularly the SMEs. To survive and thrive in such a borderless market, SMEs must be prepared to change to be more competitive to face new challenges of the ASEAN Free Trade Area (AFTA), the World Trade Organization (WTO), etc. The implementation of the Small and Medium Industry Development Plan (SMIDP) by the Malaysian government is expected to contribute to the establishment of resilient and competitive small and medium scale industries that will strengthen inter and intra industry linkages in the economy. In addition, efforts at product and market promotion will be intensified to sustain and enhance Malaysia's exports in global market.

An Overview of the Industrial Development in Malaysia

The expansion of the manufacturing sector continues to provide for the main stimulus to the growth of Malaysian economy. During the Eighth Malaysia Plan, the government plans to consolidate and strengthen the competitiveness of the manufacturing sector by implementing various measures. Although this sector was adversely affected during the economic slowdown, improvements in external and domestic trades during 1999-2000 contributed to a broad-based recovery in the manufacturing sector (Eighth Malaysia Plan, 2001-2005). Table 1.1 shows the growth of resource-based manufacturing industries in Malaysia for the past 5 years.

Table 1.1: Growth of Manufacturing Industries, 1995 - 2000

Industry	Value Added (RM million in 1987 prices)		Share of Value Added (%)		Average Annual Growth Rate, 1995-2000 (%)
	1995	2000	1995	2000	
Resource-Based	21,814	29,939	48.3	42.9	6.5
Vegetables, Animal Oil & Fats	1,203	2,222	2.7	3.2	13.1
Other Food Processing, Beverages & Tobacco	3,504	4,724	7.8	6.8	6.2
Wood & Wood Products	3,030	3,196	6.7	4.6	1.1
Paper & Paper Products	1,888	2,802	4.2	4.0	8.2
Industrial Chemical & Fertilizer	2,581	3,495	5.8	5.0	6.3
Other Chemical & Plastic Products	2,613	3,528	5.5	6.1	6.2
Petroleum Products	2,477	4,252	5.5	6.1	11.4
Rubber Processing & Products	1,549	3,867	3.4	2.7	3.6
Non Metallic Mineral Products	2,969	3,867	6.6	5.5	5.4

Source: Eight Malaysia Plan

From the table, it shows that all industries, except for wood and wood products and rubber processing products have achieved more than 5.0% average for the annual growth rate.

Growth Prospects of the Manufacturing Sector

The manufacturing sector is targeted to grow by 8.9 percent per annum during the Eighth Malaysia Plan period, and contribute 35.8 percent to the share of GDP by 2005. Export from the manufacturing activities is projected to grow by 8.9 percent per annum, accounted for 89.0 percent of the nation's export earnings by 2005. The growth of the new sources of exports especially from the resource-based industries will be enhanced to increase the country's export (Eighth Malaysian Plan, 2001-2005). Table 1.2 shows the exports of manufactured goods in 1995-2000 under resource-based category.

Table1.2: Exports of Manufactured Goods, 1995-2000 (RM million)

Industry	1995	%	2000	%	Average Annual Growth Rate, 1996-2000 (%)
Resource-Based	22,896.4	15.5	42,923.9	13.5	13.4
Food	3,218.1	2.2	4,508.5	1.4	7.0
Beverages & Tobacco	397.0	0.3	1,206.6	0.4	249.0
Petroleum Products	3,126.6	2.1	8,130.7	2.6	21.1
Chemical & Chemical Products	6,256.5	4.2	15,011.3	4.7	19.1
Rubber Products	3,267.8	2.2	4,695.0	1.5	7.5
Wood Products	4,953.7	3.4	6,801.3	2.1	6.5
Non Metallic: Mineral Products	1,676.7	1.1	2,570.5	0.8	8.9

Source: Eighth Malaysian Plan, 2001-2005

From the table, the export performance of the sector was impressive, in which it has increased from RM22, 896.4 million in 1995 to RM42, 923.9 million in 2000. Exports of manufactured goods accounted for a higher share of 85.2 percent of total gross exports in 2000 compared to 9.6 percent in 1995.

Strategies of the Resource- Based Industries

The Malaysian government will continue to take appropriate steps to develop the resource-based industries. Among the industry categories under resource-based such as food products, rubber and rubber related products and chemical and chemical related products.

Food and Beverages Industry

Food production is an important sub-sector of the Malaysian agricultural sector and accounted for 16.2% of production in the manufacturing sector in 2000. It is forecasted to expand by 6.2% per annum, contributing 37.1% of the total agricultural value added. Major processed food sub-sectors include dairy products, sugar refineries, cocoa, chocolate and sugar confectionery, and flour-based products such as biscuits, bakeries and noodles and marine products.

The Third National Agricultural Policy (NAP3), 1998-2010, adopts the product-based approach to develop the food-processing sector and is consistent with the cluster-based approach adopted in the Second Industrial Master Plan

(IMP2). One of the opportunities already identified in the IMP2 is to position Malaysia as the international hub for *halal* food. *Halal* food exports range from fresh meats from animals slaughtered according to Islamic rites, and meat items in prepared or convenience food products.

This is consistent with the strategy to make Malaysia as the world hub for *halal* food production. Since the world demand for *halal* food exceeds RM20 billion a year, this indicates that these products have the potential to be developed further. Recognizing the importance of developing an efficient and modern food products industry, the government will formulate strategies and initiate program to facilitate the development of the industry. Among the new incentive policy introduced to enhance food production is granting full tax deduction investments to wholly owned food manufacturing subsidiaries. In achieving the objectives of establishing Malaysia as a hub for *halal* food production, it is important to obtain quality and *halal* certifications endorsement on the labels of each product.

Rubber and Rubber Related Products Industry

The Malaysian rubber industry fared moderately during the last two years as compared to the economic downturn during the period of the late 90's. The structural changes underlying the rubber industry could be observed in the shift of its activities, from the upstream to the downstream. The increasing demand for raw rubber by the rubber-processing sector could not be met following the declining trend in Malaysia's natural rubber (NR) production.

This had resulted in the progressive increase in rubber imports which not only met the needs of the processing sector but also the rubber based industry which bolstered Malaysia's exports.

The rubber products industry is currently dominated by the latex goods sub-sector. In this regard, the development thrust will be to broaden the base of the industry through diversification into other sub-sectors, particularly the Industrial Rubber Good (IRG). The potential for export of products in the IRG sub-sector such as bridge bearings, engine mounts and suspension bushes is good. During The Eighth Malaysia Plan, the annual global demand for bridge bearings is estimated at USD26 million while the market engine mounts and suspension bushes are estimated at USD1.7 billion and USD1.0 billion, respectively.

Chemical and Chemical Related Products Industry

The chemical industries which include petroleum products, petrochemicals, inorganic chemicals, and chemicals and industrial gases, are gaining importance as growth engine in the industrial sector of the country. The industry can take advantage of the country's ample feedstock position, its cost competitiveness and strategic location in ASEAN. The chemical industry will be encouraged to move along the value chain by strengthening linkages with other industries using locally available raw materials.