

# Chapter 2

## Literature Review

The purpose of this section is to suggest conceptual definitions for the major constructs in this research. The relevant literature is reviewed and synthesised.

This chapter is divided into six sections and begins with reviewing theory and empirical research. Literature streams concerning export performance, firm characteristics, firm resources, innovation, international marketing and external environment. The preliminary information about Thailand and the role of exporting is included in the last section.

### Export Performance and Firm Characteristics

#### Export Performance

The most important term that needs to be defined is "export". Albaum et al. (1989) offered a simple conceptual definition that "Export is selling to foreign markets".

Lee and Brasch (1978) defined exporting as the process of marketing to foreign countries other than the home country. They mentioned that export distribution can be carried out by three methods: through an export representative (such as a combined export management firm) or other types of agents to which the firm in question delegates foreign sales responsibility; by dealing directly with customers in a foreign country; or by selling through a merchant middleman who buys for his own account and exports at least a part of his purchases.

Cavusgil and Nevin (1981) offered a comprehensive conceptual definition that this study will adopt.

Exporting is "the marketing-related decisions and activities of firms which are engaged in international business". (Cavusgil and Nevin, 1981).

The term "export performance" has been used in different ways based on the specific objective of researchers. Thus, there is no uniform definition of export performance in the literature (Cavusgil and Zou, 1994). Table 2.1 illustrates a variety of export performance measures adopted by previous researchers, as well as the criteria employed by government agencies.

**Table 2.1** Export Performance Measures Used in Previous Research

<b>Performance Measure</b>	<b>Studies</b>
Export sales level	Bello and Williamson (1985); Bilkey (1985); Cavusgil (1984a); Cavusgil and Zou (1994); Cooper and Kleinschmidt (1985); Fenwick and Amine (1979); Madsen (1989); McGuinness and Little (1981); Sood and Adams (1984); United Kingdom Awards (U.K. Awards)
Export profits	Bilkey (1982, 1985); Madsen (1989); U.K. Awards
Export sales growth	Cavusgil and Zou (1994); Cooper and Kleinschmidt (1985); Kirpalani and Macintosh (1980); Madsen (1989); U.K. Awards
Ratio of export sales to total sales	Asinn (1988); Chetty (1994); Gomez-Mejia and Luis (1988); U.K. Awards
Ratio of export profits to total profits	U.K. Awards
Increase of importance of export to total business	U.K. Awards
Overcoming barriers to export	Bauerschmidt et al. (1985); Sullivan and Bauerschmidt (1987); U.K. Awards
Propensity to export	Bilkey (1985); Cavusgil (1984b); Denis and Depelteau (1985); Kaynak and Kothari (1984); Piercy (1981a); Reid (1986); Rosson and Ford (1982)
Export involvement	Diamantopoulos and Inglis (1988)
Exporter internationalization	Piercy (1981b)
Attitudes toward export	Brady and Bearden (1979); Johnston and Czinkota (1982); Rosson and Ford (1982); Samiee and Walters (1990)
Acceptance of product by export distributors	Angelmar and Pras (1984)

**Source:** Adapted from Cavusgil, S. Tamer and Zou, Shaoming (1994). "Marketing Strategy-Performance Relationship: An Investigation of the Empirical Link in Export Market Ventures", *Journal of Marketing*, Vol. 58, (January), pp. 1-21.

The most frequently used performance measures appear to be economic in nature such as export sales, export growth and profits from exports.

Cameron (1986) identified five common themes in strategy research on performance. Shoham (1993) discussed these themes underlying the export performance perspective as follows:

1. Performance is a central concept in export assessment. It is related to multiple issues in exporting. For example, an exporter's choice of marketing mix and the form of market entry (such as direct exporting or use of middlemen) might lead to differing performance levels.
2. Export performance is organisation-specific. For example, organisations that use profit ratios to measure performance will tend to use similar ratios for exports.
3. Export performance is defined differently by individuals in an organisation. Stakeholder groups that interact in the internal and external environments of the firm introduce further diversity. Some measures of performance are needed to evaluate and reconcile their differences.
4. The usefulness of any definition depends on the purpose of the research, and more than one definition might exist.
5. Performance in exporting is problem-driven in many cases. Appropriate definitions might differ across problems. The measures of performance depend on the objectives of an individual exporter. Furthermore, different constituencies might differ in their objectives.

#### Limitations of Past Exporting Research

Despite the contributions of previous research on exporting, several limitations can be identified. First, most of studies based on the assumption that exporting can be differentiated from domestic business operations and viewed as a unique alternative (Bilkey, 1978; Reid, 1981). Known as the single-activity assumption, that approach facilitates concentration on the post-export behaviour of firms (Mintz, 1967). However, for many firms, resources are shared between domestic and export-oriented business units. Distinctions between domestic and export operations become even less clear when firms view exporting as simply

another expansion alternative - for example, when firms regard Mexico and Canada as simple extensions of the U.S. market (Czinkota, 1982a). In short, many factors thought to be related to export expansion appear to be related also to domestic expansion, and vice versa.

Second, two methodological limitations of past research warrant discussion. The first one is that almost all of the data were gathered from a single state (Gomez-Mejia, 1987) or a single developed country. It would be interesting to study a developing or less developed country. Secondly, one may wish to examine the relative explanatory power of internal determinants of the whole export strategy model, along with the organisational variables included in such a study. Unfortunately, those researchers did not examine the effect of each variable on the entire model. The statistical method may be one of the constraints.

### **Firm Characteristics**

Export marketing researchers have often given particular attention to various firm characteristics. Among those most commonly examined within the spectrum of the exporting field are firm size (Bonaccorsi, 1992; Culpan, 1989; Cavusgil and Naor, 1987; Czinkota and Johnston, 1983 Reid, 1982); the level of export involvement (Cavusgil, 1984a; Diamantopoulos and Inglis, 1988; Fraser and Hite, 1990); company experience with exporting activities (Erramilli, 1991; Madsen, 1989; Moon and Lee, 1990); attitudes toward future exports (Gripsrud, 1990).

1. **Firm size** In a critique of the Czinkota and Johnson (1983) study, Reid (1985) raised several methodological issues that may confound the results from a study concerning organisation size. These include lack of a conceptual base for predicting the relationship between a firm's size and export performance.

2. **Management commitment** Export goal consistency among management is important for export success, while lack of willingness by management to commit resources to exporting has a negative influence on performance (Cavusgil and Nevin, 1981). Gronhaug and Lorenzen (1982) found a

high positive correlation between management involvement and export performance among Norwegian exporters. So, there is a positive relationship between management commitment and export performance.

3. *Management Perceptions* Aaby and Slater (1989) concluded that knowledge of the nature of management attitudes, (mis) perceptions and dispositions toward exporting is important to enhance export performance. Successful export performance has been related to the management's positive expectations concerning the effects of exporting on the business's profitability (Cavusgil and Nevin, 1981; Cavusgil, Bilkey and Tesar, 1979). Furthermore, based on a survey of 473 firms, Cavusgil (1984) concludes that management's attitudes toward risk-taking are positively related to export performance.

4. *Business Management* Susanto (1996) argued that business and managerial behaviour is strongly influenced by culture such as shared value systems or attitudes.

Culture has been defined as

**"...the collective programming of the mind which distinguishes the members of one human group from another"**  
Hofstede (1980).

The word "culture" is reserved for societies as a whole or nations, whereas "subculture" is used for the level of an organisation, profession or family. Thus, cultural or societal values at the national level can be traditionally expected to influence organisation and management style. Most notably, the Japanese business management style has been delineated as an alternative, contrasting and highly effective approach (Pascale and Athos, 1981; Ouchi, 1981). Undoubtedly, business culture in Asian countries differs from business culture in Western countries.

The network of family and personal contacts is the principal channel through which Chinese entrepreneurs obtain and test information crucial for the development of their companies, and for the forging of new business alliances (Weidenbaum, 1996). In addition, the leadership of firms tends to be long-lasting and stable, allowing for the accumulation of deep knowledge about an industry and the building of strong networks (Reeding, 1995). With a lean and mean structure, the Chinese firm can react very quickly. No previous studies have focused on

marketing innovation. Only Reeding (1995) proposed that with an emphasis on network relationships, a company can bring in technology and create market access more easily. In contrast, Weidenbaum (1996) and Reeding (1995) argued that the type of family-run business always keeps control within the family, which may be an obstacle for high-tech companies which require innovative experts.

Vadhanasindhu (1985) examined common factors of management practices among successful companies in Thailand and compared them with those of excellent American companies. The results revealed that the differences were the utilisation of a matrix organisation, utilisation of peer-review performance appraisal, and the encouragement of employees' entrepreneurial and innovation skills.

In conclusion, a review of previous studies conducted by Western researchers identified a wide range of firm characteristics associated with a firm's success in exporting. Nevertheless, there is a dearth of systematic research focusing on the analysis of a firm's competitive advantages in export markets in relation to such prominent organisational features as business culture (Katsikeas, 1994).

### **Resource-Based Theory of the Firm**

The resource-based theory of the firm complements and integrates contributions from many perspectives, notably industrial organisation and transaction cost theory (Connor, 1991; Mahoney and Pandian, 1992; Peteraf, 1993). With hindsight, the resource-based theory of the firm is said to encompass well-established theories of firms' growth and profit, implying that a long list of classic contributions to economic and strategy research - such as Ricardo (1817), Schumpeter (1934) Penrose (1959), Ansoff (1965) and Andrews (1971) — can be claimed to reflect resource-based arguments *avant la lettre*. What differentiates the resource-based view from industrial organisation theory is the focal level of analysis. The resource-based approach emphasises the firm level, while industrial organisation theory focuses on the industry or market.

Resources are defined as those tangible and intangible assets that are tied semi-permanently to a firm (Caves, 1980). Examples of resources include brand names, in-house knowledge of technology, employment of skilled personnel, trade

contracts, machinery, efficient procedures, capital, etc. (Wernerfelt, 1984). Since resources are located or produced inside the firm, theories of organisational behaviour and structure point to major sources of sustainable competitive advantage (Powell, 1992). One of the most influential lists of conditions that underlie sustainable competitive advantages was provided by Barney (1991), who stated four conditions: (i) valuable, (ii) rare, (iii) imperfectly imitable and (iv) imperfectly substitutable. These characteristics follow from a number of underlying mechanisms such as unique historicity, causal ambiguity, social complexity, tacit knowledge, future uncertainty and variable rationality (Lippman and Rumelt, 1982; Barney, 1986a, 1986b; Dierickx and Cool, 1989; and Shoemaker, 1990).

1. R&D Chow and et al. (1997) agree that research and development provides the foundation for an organisation's offerings. Although the benefit of R&D may not be obvious in the short term, it is an absolutely crucial activity for maintaining one's competitive position. Technological innovations must be integrated with the marketer's understanding of his potential customers' needs.

2. Human resources In resource-based empirical studies, Hansen and Wernerfelt (1989) and Powell and Dent-Micallef (1997) found that human resource factors explained greater proportions of performance variance than strategy and market share factors. Powell (1995) found that behavioural factors such as an open culture and CEO commitment, explained significantly greater TQM performance variances than process factors e.g., defect reduction and traditional quality control methodologies.

3. Technology Resources Technology intensiveness is consistently found to be related to propensity to export (Cavusgil and Nevin, 1981; McGuinness and Little, 1981; Cavusgil, 1984; Cooper and Kleinschmidt, 1985; Daniels and Robles, 1982; and Joynt, 1982). One study concludes that technology is best applied as a standard in all markets (Christensen et al., 1987), however contextual factors could explain this relationship. If the respondents in these studies primarily marketed their products in developed countries, technology could be an important source of competitive advantage over local producers. In less developed countries, though, other sources of competitive advantage such as low cost could be more important.

In the study of eighty-nine Canadian indigenous enterprises, Reid (1986) found very little relationship between technology and export performance beyond encouraging a firm to make an early entry into an export market. He argued that mere possession of a specialised knowledge did not create a competitive advantage. It depended on how the firm took advantage of it. He criticised current research supporting the thesis that technology was related to export performance, because associations with export performance was based on research in industries where exports included significant intra-company trading. Consequently, he concluded that current research on technology did not reflect true export performance. The evidence on technology and export performance were thus mixed.

### Innovation

Innovation is a complex phenomenon that can be operationalised in various ways. According to Webster (cite from Kuczmariski, 1996) innovation is a new idea, new method or device.

Drucker (1986) stated that innovation was an economic or social rather than a technical term. It can be defined in demand terms rather than in supply terms: that is, as changing the value and satisfaction obtained from resources by consumers.

Schumpeter (1934) was primarily an innovator who developed new combinations of productive means. He proposed the concept of innovation in five categories as follows:

1. The introduction of a new good: that is, one with which consumers are not yet familiar or a new quality of good.
2. The introduction of a new method of production: that is, one not yet tested by experience in the branch of manufacture concerned, which needs by no means to be found on a discovery that is scientifically new, and can also exist in a new way of handling a commodity commercially.
3. The opening of a new market: that is, a market into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market has existed before.



4. The conquest of a new source of supply of raw materials or half-manufactured goods, again irrespective of whether this source already exists or whether it first has to be created.

5. The emerging of the new organisation of any industry, like the creation of a monopoly position (for example, through transification) or the breaking up of a monopoly position.

Kuczmarski (1996) viewed innovation as a mindset, a pervasive attitude, or a way of focusing thinking beyond the present into the future. Innovation is a pervasive spirit that stimulates individuals, as well as teams, to holistically endorse a belief in creating newness across all dimensions of the company, such as new markets, new product ideas, new manufacturing approaches, new customer segments, new selling methods, new ways to deliver old products, new services, etc.

A more behaviour-oriented view of innovation was offered by Zaltman, Duncan, and Holbek (1973). They defined innovation as any idea, practice, or material artefact perceived to be new by the relevant unit of adoption. This view had been earlier defined by Rogers and Shoemaker (1971). Porter (1990), whose concept is employed in this study, defined innovation in a broader sense of strategic terms. He included not only technologies but also new methods or ways of doing things that sometimes appeared quite mundane. For instance, innovation can be manifested in a new product design, a new production process, a new approach to marketing, or a new way of training or organising. This study will define the term of innovation strategy based on Porter (1990).

In sum, innovation has been studied by groups of researchers as diverse as economists, management technologists, organisational sociologists and strategy theorists. While economists (Acs and Audretsch, 1990; Scherer, 1984) and some management technologists (Utterback and Abernathy, 1975) have studied innovation at the level of the industry, organisational sociologists (Kimberly and Evanisko, 1981; Damanpour and Evan, 1984) and strategy theorists (Zahra and Covin, 1994; Lengnick-Hall, 1992) have looked at innovation at the level of the firm. Each group has a different research focus and consequently has emphasised

different levels of analysis and different dimensions of innovation (Gopalakrishnan and Damanpour, 1994).

### **Dimensions of Innovation**

Dimensions that have been used frequently to understand innovation include: type of innovation (Utterback and Abernathy, 1975; Daft, 1978; Damanpour and Evan, 1984; Kotabe, 1990), source of the innovation (Burgelman and Sayles, 1986; Maidique and Patch, 1988; Sahra and Covin, 1994); intensity of the innovation (Capon and Glazer, 1987; Maidique and Patch, 1988); timing of innovation (Ansoff and Stewart, 1967; Rogers, 1983; Lieberman and Montgomery, 1988; Smith, Grimm, Gannon and Chen, 1989; Abrahamson, 1991); magnitude of innovation (Kimberly and Evanisko, 1981; Damanpour and Evan, 1984). Some studies use a combination of dimensions such as type and magnitude (Damanpour and Evan, 1984; Ettlie, Bridges and O'Keefe, 1984). This study uses type of innovation which focuses on product innovation, process innovation and market innovation.

An innovation type at the firm level is characterised as the adoption of new products, new processes and new markets (Aiken and Hage, 1971; Kimberly and Evanisko, 1981; Carroad and Carroad, 1982; Porter, 1990).

1. *Product innovations* are output innovations which customers of an organisation come in contact with. There are many types of product innovations through new technological methods that change existing assets and facilities of firms, which Porter (1990) mentioned in his study. For instance, Japanese firms have gained advantages in many industries through emphasis on smaller, compact, lower-capacity product varieties that foreign competitors disdained as less important and less profitable. Korean firms have matched the ability of Japanese firms to mass-produce standard colour TV sets and VCRs. Brazilian firms have technology and designs comparable to Italy's in casual leather footwear.

New products can have a favourable effect on market share to the extent that they satisfy customer needs better than the existing goods (Davidson, 1976), and prevent competitors from taking away a business's customers with their own new products (Hayes and Abernathy, 1980). Though new products can cannibalise

the sales of existing products and consume the marketing resources that would otherwise go to them (Hambrick and Schecter, 1983), continuous and constant innovation are competitive imperatives for maintaining and/or building share. Hence, in the aggregate, market share at the strategic business unit (SBU) level can be expected to vary positively with the rate of new product introductions.

The relationship between new product introductions and profits, however, is equivocal. There is evidence to suggest that new product introductions could hurt business profits in the short run. Developing and introducing new products can require large investments in R&D, plant and equipment, and in advertising and promotion to build consumer awareness. Yet, evidence from studies on "excellent" companies suggests that new products and profits are positively related in the long run (Peters and Waterman, 1982; Maidique and Hayes, 1984), other evidence suggests that new products and profits are positively related when consumers are willing to pay a price premium for superior new products that cannot be readily duplicated by competitors (Booz, Allen and Hamilton, 1981; Cooper, 1986).

2. *Process innovations* are tools, outputs, devices and knowledge in throughput technology which mediate between inputs and outputs (Utterback and Abenathy, 1975; Ettlie and Reza, 1992). A successful new-process development requires creative inputs and analytical disciplines. These new ideas are refined in the design phase to address customers' needs.

Urban and Hauser (1993) proposed that the analytical discipline was used to minimize risks in the phases of design evaluation, pre-testing, test-market forecasting, controlling the national launch, and transition to maturity. Among the most famous studies, Cooper and Kleinschmidt (1987) and de Brentani (1989) found that innovation was found to correlate with the new-product process. Innovation is addressed in idea generation (opportunity identification), competitive analyses (design) and technological superiority. Innovation is addressed by identifying gaps in the market (perceptual mapping, design) and coordinating marketing, R&D, and engineering (e.g., total quality procedures, design).

In 1990s quality is a necessary requirement for success. Clark and Fujimoto (1991) studied the auto industry globally and found that total product quality was critical to attracting and satisfying customers. Building quality products requires

qualified engineers and marketers, R&D excellence (e.g., superior quality and reliability, competent engineering, good project management), and technical performance, according to Zirger and Maidique (1990) in a study of the most important determinants of success or failure in new electronic products.

R & D is an important activity. In 1990 private organisations in the United States spent almost \$70 billion on R&D - on average about 3.4% of total sales and 46.8% of total profits (Business Week, Special Issue, October 25, 1990). In a comparison of company performance in 1987 with R&D spending from 1983 through 1986, (Business Week, Special Issue, June 15, 1989) it appeared to have a significant correlation between R&D spending per employee and return on assets.

3. Market innovations are new markets in foreign countries which are different from a firm's existing markets. Creating new markets may arise when a firm (1) perceives an entirely new buyer; (2) serves a market segment that rivals have ignored; (3) develops an after-sale service (Carrood and Carrood, 1982; Porter, 1990).

Robert (1989) studied the evolution of successful high-tech firms and found that a critical factor in the successful ones was an orientation toward marketing. In a study of 21 greater Boston high-tech firms that had survived more than five years and had sales of more than \$5 million, a market-oriented transformation (importance of marketing, market-oriented control of new products, and new-market-oriented chief executive officers) characterised the higher performers. In another similar study by Roberts (1990b) of 114 technology based firms, he found an evolution in surviving firms toward marketing with less emphasis on engineering. He also found the best opportunities for rapid growth come from building an internal critical mass of engineering talent in a focused technological area, with products targeted for a focused set of customer needs sold to gradually broadening groups of end users through single channels of sales and distribution (Robbers and Meyer, 1991).

The importance of market orientation has been found in more mundane industries. Naver and Slater (1990) found in a commodity product business such as lumber and building supplies, that based on 140 products there was a substantial positive effect of market orientation on profit. Some studies (Robinson, 1967;

Tookey, 1975; Day, 1976; Tessler, 1977; Attiyeh and Wener, 1981) recommended a market concentration strategy based on the traditional notion that larger market shares in a few key markets are associated with higher profitability in the long run (Boston Consulting Group, 1968; Buzzel et al., 1975; Jung, 1984). Others (Hamermesh et al., 1978; Piercy, 1981) recommended a market diversification strategy based on the rationale that taking low market shares in widely dispersed markets may be more profitable than concentrating on a few key markets. From the contradictory empirical results, either export market concentration or market diversification leads to better export performance (Lee and Yang, 1991).

While product innovations have a market focus and are mostly driven by customer- need driven, process innovations have an internal focus and are efficiency-driven (Utterback and Abernathy, 1975). The appropriateness of each of these two types from a performance viewpoint varies significantly based on the organisation's environment (Utterback and Abernathy, 1975), and the competitive strategy (Zahra and Covin, 1993). Economists, management technologists, strategy theorists and sociologists acknowledge the differences between product and process innovation because of their distinct characteristics and the different types of skills required to manage their generation and adoption (Gapalakrishnan and Damanpour, 1994). However, only a few studies (Utterback and Abernathy, 1975; Floyd and Wooldridge, 1990; Zahra and Covin, 1994) have compared and contrasted the relative effectiveness of both types.

### **Benefits of Innovation**

There are two key power roles in which innovation can benefit a company: (1) competitive advantage protection, which stems from competitive innovation, and (2) shareholder, employee and customer satisfaction (Kuczarski 1996).

The first, competitive advantage protection, provides a company with a long-term competitive "insurance" policy. Kuczarski (1996) defined competitive advantage protection as a strategic approach for preempting, protecting against, or jumping ahead of competition. Competitive advantage protection enables a company to accelerate growth, experience incremental margin enhancement, and build additional core competency, which bolsters competitive advantage.

Kuczarski described the role of innovation in improving competitive advantage by shaping business strategy in four ways as follows:

1. **Radical leapfrogging**. A company aims to develop new products that will leapfrog competition. The end outputs of this strategy usually are products or services that bring totally new consumer-perceived benefits. They are radically different from anything currently offered in the market. Consumers or end-users will clearly perceive the functional, emotional, psychological, or performance benefits of these new products as better or greater than those offered by any competitive product.

2. **Benefit differentiation**. Competitive innovation can play a major role in adding new benefits to an existing product. By focusing on new benefits, the existing or newly developed product will provide a new source for competitive advantage. The degree of uniqueness and benefit differentiation will most likely determine the duration and strength of the competitive advantage.

3. **Market share stimulation**. There are many different approaches for stimulating market share, ranging from advertising and promotions to distribution channel diversification and pricing. However, competitive innovation can also be used to build market share by launching line extensions, flankers, and new-and-improved products. This approach offers end-users new reasons to purchase a company's product line rather than competitors' products.

4. **Value-engineering or cost-reduced**. New products and processes can also be achieved through competitive innovation. Sometimes the lower cost benefit can be passed on directly to consumers, resulting in a price reduction.

Alternatively, the cost savings can be applied internally to boost gross profit margins. This incremental margin revenue can then be used to build awareness or stimulate trial through increased marketing.

The second power role -- shareholder, employee and customer satisfaction provides a means for increasing the satisfaction level of companies' three key constituencies. If satisfaction can be increased for these constituencies with increased profitability, it is quite safe to assume that the senior management will be rewarded.

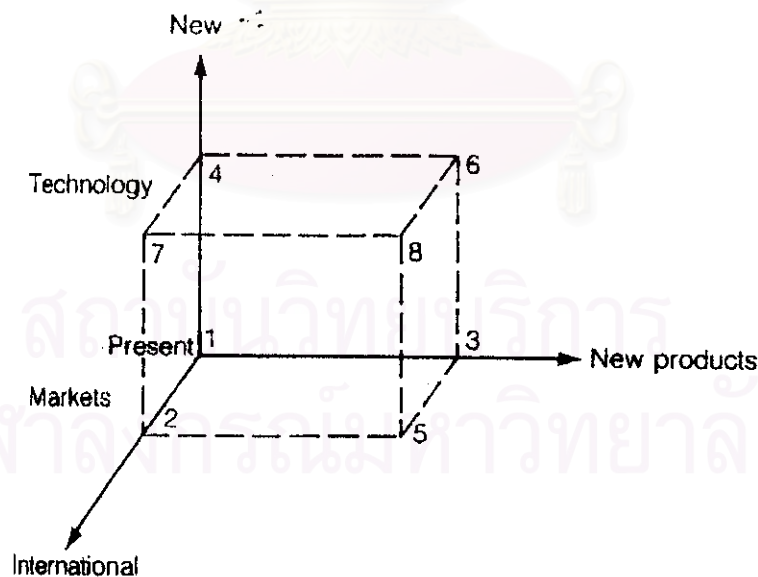
Innovation can serve both competitive advantage protection and satisfaction roles concurrently. The more innovation-oriented a company is, the faster it achieves both roles.

In sum, based on resources-based theory (Wernerfelt, 1984; Barney, 1991), this study uses innovation type -- product and process -- and innovation source as an approach and analyses the relationship with performance. In addition, this study analyses innovation as a strategy or a stream of decisions patterned at the firm level.

### International Marketing Strategy

In terms of marketing, in order to step into international markets, a company has to decide which kinds of innovations it should build. Carroad and Carroad (1982) presented three dimensions of marketing and innovation which include product innovation, technological innovation and market innovation. The following figure shows the relationship of each innovation in different positions.

**Figure 2.1** The Technology-Product-Market Decision



**Source:** Adapted from Carroad, Paul A. and Carroad, Connie A. (1982), "Strategic interfacing of R&D and Marketing," *Research Management*, (January), 28-33.

From Figure 2.1, 1 is the present position of a company. If the company exports its products to international markets without any change in its goods, it will be positioned at 2, a marketing innovation related to new markets in foreign countries that are different from its existing markets. Number 3 shows that the company has innovated a new product. If the new product is a result of an innovation in technology that is different from the existing technology for producing this new product, the company will be positioned at 4. This means that it uses new technology, such as computers for example, in production or in reducing production costs. In this case, products and markets are changed, but new technology is modified.

Number 5 means that the company has developed new products for new foreign markets, but still uses the existing technology. This could involve producing the same product for new export markets, but using the company's brand name which had never been used before, making consumers believe that the product is totally new.

At number 6, the company uses new technology in producing new products to export to its existing markets. For example, Guinness Co. Ltd. uses new technology in producing non-alcoholic beer, which is considered a new product for existing markets.

At number 7, a new product has been developed by using new technology, to substitute for an old product in the same market. An example would be producing television sets to substitute for radios in the entertainment market. Number 8 illustrates the three dimensions of innovation i.e., new product, new market and new technology. For example, Bailey's Original Irish Cream is a new product developed by an Irish firm. The product's ingredients are whisky with a low alcohol level, and cream, mixed by using new technology. The Irish product is exported worldwide, particularly to the United States.

Market innovation can be developed in many ways depending on a company's resource management (Bradley, 1991). Innovation has so much value and usefulness, academics and researchers from different branches agree, since it acts as a catalyst in industry and commerce. It invigorates efforts and brings new opportunities for profitable expansion (Chrisnall, 1995); creates competitive



advantage (Porter, 1990; Foxall and Johnston, 1994); and especially, creates sustainable competitive advantage (Slater, 1996). Companies can achieve competitive advantage through the creation and exploitation of innovative products and services that are more appealing to their customers and more profitable than those produced by their rivals (Foxall and Johnston, 1994).

Management must integrate the strategies of various functions, including marketing, finance, production, and R&D, in order to achieve consistency. The marketing innovation strategy must begin with a designation of the target segment and the specific needs to be met by the firm. The subsequent development of product, price, promotion and distribution strategies will obviously have implications for the other functional areas.

### **External Environment**

The external environment has been conceptualised in a variety of ways. It can be conceptualized in terms of its level of hostility, heterogeneity and dynamism (Miller, 1982), turbulence (Davis, 1991), or volatility (McKee, 1989). Several studies have focused on the hostility level of the environment, making a distinction between hostile and benign environments (Covin, 1989; Khandwally, 1977). Hostile environment were characterised by precarious industry settings, intense competition, harsh, overwhelming business climates, and the relative lack of exploitable opportunities (Yeoh and Jeong, 1995).

While some earlier studies have acknowledged the importance of the external environment in exporting (Walters, 1993; Cooper, 1985; Green, 1987; Cavusgil, 1984), a review of the literature reveals that the majority of exporting studies have essentially adopted a reactive stance with respect to the external environment, which is often described as "uncontrollable" or "given". The external factors beyond the firm's control are the lack of macro-level incentives, unfavourable exchange rates, the absence of a stimulating national export policy (Gomez-Mejia, 1988). Cavusgil (1984) concluded that external factors, such as exchange rate, levels of domestic and foreign demand, relative rates of price-level increases, and commercial policy proved to be poor predictors of firms' export

behaviour. Similar conclusions were reached in a 1986 report commissioned by the Congressional Joint Economic Study, done by a Washington international consulting firm, Quick, Finance and Associates (Greenberg, 1986).

Earlier research that has considered the impact of the environment often conceptualises the exporting environment in terms of perceived obstacles to exporting, or in terms of problems associated with exporting itself (Bauerschmidt, 1985; Gripsrud, 1990). Such a reactive approach, unfortunately, ignores the fact that firms may view uncertainties arising in their environment as opportunities and, hence, may proactively take advantage of changes in the environment through innovative and aggressive marketing activities such as development of new products and/or markets (Yeoh and Jeong, 1995). As such, while the importance of the external environment has been acknowledged, such key issues as how firms deal with environmental changes – albeit favourable or unfavourable – and their subsequent performance implications, have not received much scholarly attention.

In sum, empirical results of determinants of exports concerned with external factors are mixed and generally disappointing.

### **The Role of Exporting in Thailand**

At the end of World War II, Thailand was basically an agrarian economy. Heavily dependent on rice, which accounted for some 25 per cent of GDP and about one-half of exports, Thailand had only a very small manufacturing sector and limited basic infrastructure. Over the ensuing 40 years, real annual GDP growth has averaged some 7 percent. Output and exports have become increasingly diversified. By the beginning of the 1990s, Thailand was well advanced in its transition from an agricultural to an industrial and services-based economy. The dramatic shift was associated with the relocation of industries to Thailand from Japan and the NIEs of East Asia, namely, South Korea, Taiwan and Hong Kong. With this movement of foreign investment, Thailand's exporting has shifted from traditional manufactured exports of textile products, canned food, sugar and jewellery, to computer components, integrated circuits, footwear, plastic products, travel goods and electrical appliances. In the 1990s, the scale and degree of internationalisation of

the Thai economy had reached a level where it could now be considered a global player (DEP, 1993).

From 1987, Thailand attained double-digit real growth rate for three consecutive years and emerged as one of the world's fastest growing economies. Although growth was forecast to be slower throughout the 1990s, and it did indeed slow after 1990, the economy still expanded at an average annual rate of 7-8 percent a year through 1996. The agricultural sector, which was Thailand's engine of growth in the 1970s, was replaced by manufacturing in the 1980s. By 1991, the manufacturing sector accounted for more than three-quarters of Thailand's export earnings.

In 1994, key factors that brought about high growth rates included growth of the export sector, investment and tourism, all of which had expanded considerably faster than the projected rates (Svasti and Mephokee, 1994). Unfortunately, by mid-1997 Thailand was facing a dilemma after the government decided to employ a floating exchange rate. Table 2.2 presents Thailand major markets of exporting during 1992-1997. Table 2.3 shows the ratio of export goods from Thailand in various world markets.

**Table 2.2 Major Export Markets of Thailand 1992-1997**

**Unit: Million baht**

Country	1993	1994	1995	1996	1997*
1. ASEAN	153,141	206,949	279,845	279,060	210,686
2. USA	202,228	239,100	250,685	253,800	195,736
3. Japan	159,480	194,276	236,099	237,524	160,231
4. EU	163,702	177,770	212,203	224,907	156,984
5. Other	262,312	319,507	427,478	415,749	300,812
Total	940,863	1,137,602	1,406,310	1,411,039	1,024,448

**Note:** \*(Jan - Aug)

**Source:** Statistical data on Thailand Trade. October 27, 1997  
Business Economics Department, Ministry of Commerce

**Table 2.3** Ratio of Export Goods from Thailand in World Markets

	(percent)				
<b>Ratio</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>
1. ASEAN	16.3	18.2	19.9	19.8	20.6
2. USA	21.5	21.0	17.8	18.0	19.1
3. Japan	17.0	17.1	16.8	16.8	15.6
4. EU	17.4	15.6	15.1	15.9	15.3
5. Other	27.9	28.1	30.4	29.5	29.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

**Source:** Statistical data on Thailand Trade. October 27, 1997  
Business Economics Department, Ministry of Commerce

### **Manufactured Export Performance**

Thai manufactured exports grew at an annual compound rate of 24.4 percent during 1980-90 and at 22.9 percent during 1990-1995 as shown in Table 2.4. For the 15 years period since 1980, Thailand had the highest rate of growth of both manufactured and total exports of all the Asian "high performing economies". This growth fed into a sustained growth of its manufacturing sector and to a change in its structure from light to heavy and complex activities (Table 2.4 and 2.5), though by the standards of the Tiger economies and Malaysia, Thailand has a less advanced structure with a greater weight of 'simple' manufacturing activities like food processing and textiles. Nevertheless, there has been a significant change in the pattern of manufactured exports, with a rapid move up the technological ladder at least in the distribution of export values (which may not reflect the underlying technological) production base within the country.

Table 2.4 Comparative Export Performance, 1980-1995

Comparative Export Performance								
Country	Total Exports				Manufactured Exports			
	Value (\$m)	Growth rate			Value (\$m)	Growth rate		
	1995	1980-90	1990-95	1980-95	1995	1980-90	1990-95	1980-95
Thailand	53,831	14.4%	20.8%	16.5%	42,281	24.4%	22.9%	23.0%
Korea	125,056	14.1%	14.0%	14.0%	117,573	14.5%	13.7%	14.0%
Taiwan	110,895	13.2%	10.8%	12.4%	104,302	13.4%	10.7%	12.0%
Singapore (a)	118,066	10.5%	17.5%	12.8%	108,277	13.1%	17.8%	14.0%
Malaysia	73,778	8.65%	20.2%	12.3%	56,494.5	20.1%	27.9%	22.0%
Indonesia	45,418	1.6%	12.1%	5.0%	24,729	19.7%	18.5%	19.0%
Philippines (c)	17,174	3.5%	16.2%	7.6%	7,568 (c)	9.6%	16.6%	11.0%
China (b)	148,780	NA	19.1%	NA	131,086	NA	22.6%	19.0%
World	4,547,898	7.3%	7.4%	7.3%	3,697,772	8.8%	8.5%	8.0%

**Source:** UN Comtrade database

- Note:**
- (a) Includes re-exports; Singapore's 'own' exports are about 51 percent of total.
  - (b) Export data for 1980 are not available for China.
  - (c) Manufactured exports exclude 'special transactions' which contain significant manufactured exports. If official data are used, the value of manufactured exports in 1995 comes to \$14.4 billion and their growth for 1990-95 to 19.1%.

More recent manufactured export performance in Thailand, from 1992 until mid - 1997, is shown in Table 2.5. Manufactured exports almost doubled in 1992 to 1995, but the growth rate dropped sharply in 1995-1996, when they were practically stagnant. This year witnesses a world-wide slowdown in trade, with the growth rate of world manufactured exports dropping from 8.6% p.a. over 1990-1995 to 2.1% in 1996. All countries in Asia, including China, suffered from a sharp drop in export growth, but the worst affected are Korea (which has been particularly hit by a massive fall in the prices of DRAM chips, one of its main exports) and Thailand.

**Table 2.5** Thailand's Exports of Manufactured Products, 1992-97

Values (\$ million)

Product Categories	Thailand's Exports of Manufactured Products, 1992-97						Rates of Growth				
	1992	1995	1996	1996	1996	1997	1992-95	1995-96	1996	1996-97	1996-97
				Jan-June	July-Dec	Jan-June			(a)	(b)	(c)
Technology-intensive products	10,534.6	23,637.8	24,993.0	12,125.4	12,867.6	12,837.6	30.9%	5.7%	6.1%	5.9%	-0.2%
Labor-intensive products	8,469.0	12,101.7	10,375.4	5,033.0	5,342.4	4,663.7	12.6%	-14.3%	6.1%	-7.3%	-12.7%
Resource-based products	3,868.1	5,748.5	6,459.3	3,394.7	3,064.6	3,420.9	14.1%	12.4%	-9.7%	0.8%	11.6%
Other manufactured products	1,591.2	2,720.4	3,613.7	1,727.4	1,885.3	1,781.0	19.6%	32.8%	9.2%	3.1%	-5.6%
Total manufactures	24,975.6	46,119.2	46,211.5	22,640.7	23,570.8	23,132.2	22.7%	0.2%	4.1%	2.2%	-1.9%
Total exports	32,466.0	56,331.1	56,676.9	25,273.1	31,403.8	27,223.4	20.2%	0.6%	24.3%	7.7%	-13.3%

Source: Lall, Sanjaya (1997), "Thailand's Manufacturing Competitiveness: A Preliminary Overview," The World Bank.

Notes: (a) Growth in second six months of 1996 compared to first six months.

(b) Growth in first six months of 1997 compared to first six months of 1996,

(c) Growth in first six months of 1997 compared to second six months of 1996.

There was an apparent revival of Thai exports in the first half of 1997 compared with the same period in 1996 [Table 2.5; 1996 (b)], with total exports rising by 7.7 % and manufactured exports by 2.2%. This suggests that the export sector was bouncing back in 1997 and that the cyclical factors that may have caused the sudden collapse in 1996 were coming to an end. However, this even may be misleading. The real revival in exports came in the latter half of 1996 as compared to the earlier half [Table 2.5; 1996 (a)], when total and manufactured exports grew by 24.3% and 4.1% respectively. Taking the leading 20 manufactured exports, as many as 14 declined in the first half of 1997 over the second half of 1996. Non-manufactured exports fluctuated much more sharply than manufactured products.

There are two facets to the Thai competitiveness problem. There are the slowdown of 1996 and the longer-term upgrading of the structure, quality and efficiency of manufactured exports. The problems of competitiveness in Thailand are studied by Lall (1997). The conclusion of the problems are as follows:

1. Thailand is attracting less foreign direct investment than neighborhood countries such as Malaysia or Indonesia, while Philippines is pulling ahead in terms of drawing electronics firms by virtue of its higher human capital levels.
2. The quantity and quality of Thai human capital are inadequate for its long-term industrial needs.
3. Industrial R&D and technology support institutions are weak, geared to simple and low-level activities rather than the complex capabilities which are needed for future export development.
4. Though local enterprises are strong and dynamic, their focus still remains resource and labor-intensive activities.

### **Export Promotion Programs**

The trade promotion and assistance by The Thai government play an increasingly important role in today's growing international trade (Kotler, Jatusripitak and Maesincee, 1997) especially in an exporting sector. Seringhaus and Rosson (1990) distinguish five types of a company situations in relation to exporting as follows:

1. **Non-exporters.** These are companies that have no exporting experience and are currently not considering exporting.

2. **Failed exporters.** These are companies that have some experience in foreign marketing but have decided to withdraw from these activities.

3. **First-time exporters.** These are companies that decide to export in the near future.

4. **Expanding exporters.** These are companies that plan to penetrate their products into one or more new foreign markets.

5. **Continuing exporters.** These are companies that plan no major changes but want to fine-tune their present export operations.

Seringhaus and Rosson (1990) classified two approaches that the government should use to promote exports, direct and indirect programs. Direct programs concentrate on the demand side while indirect programs focus on the supply side. They proposed four interesting major types of government initiative and implementation activities as follows:

1. **Encouraging non-exporters with strong competitive products to consider first-time exporting.** Non-exporting firms may require motivational programs. Government can do this by providing information on the benefits of exporting or case histories of successful exporters.

2. **Helping first-time exporters through the early, difficult phases of international marketing.** These exporters need extensive information on "how" and "where" to export.

3. **Promoting the idea of renewed exporting to failed exporters who might succeed in the next try.**

4. **Supporting continuing exporters as they attempt to improve their performance.** This group of exporters may need help to publicize, advertise, and exhibit their products abroad and for meeting directly with foreign buyers (Cavusgil, 1990)

The indirect programs aim to improve the exporter's competitiveness and performance through structural and process changes. They include productivity, research and development, technology and innovation, manpower planning, regional



and sectoral development, and fiscal measures such as tax and investment incentive policies, at both the industry and firm levels.

### **Summary**

This chapter reviews literature related to marketing innovation and export performance. The past and present situations of Thailand in terms of the export performance is also discussed.



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