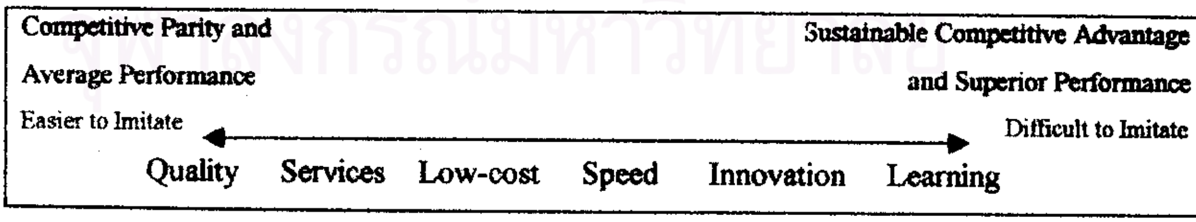
Chapter 1

Introduction

Introduction

Globalisation and international competition are major challenges in international markets which require changes in competitive postures and development of strategies matched to the changing environment (Porter 1986; Douglas and Craig 1989). Such strategies in international marketing should be mobilised to counter-attacks. Important marketing strategies which are widely used include introducing new products to markets, penetrating new markets, creating more intensive new distribution channels, better production facilities, increased marketing expenditures, price reductions, and acquisitions of other companies (Bradley, 1991). These strategies can help a company to compete with its rivals during a given period of time, but they can also be easily imitated by competitors. Therefore, a company has to prepare long-term strategies to create its sustainable competitive advantage. Slater (1996) has proposed six key sources of competitive advantage ranging from easier to imitate to difficult to imitate. They are quality, services, low cost, speed, innovation and learning (see Figure 1.1).

Figure 1.1 Capabilities and Competitive Advantages



Source: Slater, Stanley F. (1996), "The Challenge of Sustaining Competitive Advantage," *Industrial Marketing Management*, 25, 79-86.

According to Slater (1996), sustainable competitive advantage for superior performance is a result of innovation and learning that are difficult to imitate.

Unlike purely domestic firms, those firms engaging in international marketing are exposed to more diverse and complex environmental contexts at both the level of the industry and firm, as well as in their home and host country markets (Miller, 1993; Huszagh, 1992). Exporting firms often have to modify their marketing activities in a variety of ways to adjust to changes in environmental hostility in their domestic market (Roa, Kreighbaum and Hawes, 1983) as well as in overseas markets (Green, 1987). For instance, various obstacles to exporting are perceived to exist in both home and overseas markets, requiring adjustments in export marketing strategies (Axinn, 1988; Bauerschmidt et al., 1985).

In marketing, Peter Drucker was one of the first scholars to state the marketing concept. In an often-cited passage, Drucker (1954) wrote:

> **"There is only one valid definition of business purpose: to create a customer. ... It is the customer who determines what the business is. ... Because it is its purpose to create a customer, any business enterprise has two - and only these two - basic functions: marketing and innovation."**

Though an increased interest has emerged in conceptualizing and measuring the marketing concept, little attention has been devoted to Drucker's second *basic function*, innovation (Deshpande et al., 1993). In a separate branch of literature, which is diffusion of innovations, scholars have noted the importance of organizations being innovative (Roger, 1983). Much of this literature focuses on innovativeness as a dependent variable, presuming it to be important and worthy of study. Increasingly, however, scholars have linked innovativeness to organizational performance, suggesting that a firm needs to be innovative *to gain a competitive edge in order to survive and grow* (Gronhaug and Kaufmann, 1988). This issue is important because the relationship between organisational factors such as innovativeness and business performance has not been studied adequately (Capon, Farley and Hoenig, 1990).

There are many studies and research materials on marketing in terms of ideas, knowledge and measurements. Meanwhile, innovation attracts very little interest from marketing researchers. There is only limited research in this field, though innovation is very important in enabling a company to develop a sustainable competitive advantage.

The reason for this limited interest in innovation may be that this is just the pioneering period for innovative ideas, knowledge and scientific development. It could also be the result of the various and complicated meanings of the word itself. This makes the concept of innovation difficult to study and measure, since the work will be based on different theories, different contexts and definitions.

In general, interpretation of innovation is often linked to new technological developments. However, many famous academics have suggested that innovation should not be attached particularly to technology. It should have wider meanings to encompass any new ideas initiated by a company for the purpose of its own business profits.

Porter (1990), a leading academic in the strategic management field who proposed the "Competitive Advantage of Nations" model, also placed very much importance on innovation. He gave a wide definition of the word "innovation" as *an act of perceiving or discovering new and better ways to compete in an industry and bringing them to market*.

Innovation has so much value and usefulness, academics and researchers from different areas 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).

Lee and Brasch (1978), Kotabe et al. (1990) linked the ideas and importance of innovation to an organization's performance by suggesting that an organization has to have innovation to gain competitive advantage, survive and grow. After studying various research on innovation, many academics mentioned the importance of organizations and innovation (Roger, 1983). Most of this research emphasised innovation as of important and valuable to study but unfortunate there are still very few studies of the relationship between innovation and an organization's performance.

Studies of organizational performance can be divided into macro-economic, industrial sector, and micro-economic organization. Most of the case studies came from developed countries such as the United States, Canada and countries in the European Union (EU). There are only a few studies from developing and less-developed countries. The effects of globalization have caused many countries to face trade imbalances and inequalities. How these situations will depend on the appropriate reactions and ability to adjust on the part of each country and each company.

In the past 20 years, studies on the determinants of export performance have been an important stream of international marketing research (Aaby and Slater, 1989). However, these studies are rarely adapted for practical purposes and to show the links between different variables and the success of exports.

Bilkey (1982) was the first to study and synthesize the export research in "Variables Associated with Export Profitability". He reviewed 43 studies on export behavior of firms from 11 countries. He found consistency among the findings regarding several dimensions of export behavior, such as obstacles to exporting (insufficient finances, insufficient knowledge about foreign sales opportunities) and management systems of exporters and non-exporters. He also found some conflict among some factors that act as determinants of export performance, such as the stage the company, size of business and motivation.

Apart from Bilkey's research, a work on "Management Influences on Export Performance: A Review of the Empirical Literature 1978-88" by Aaby and Slater (1989) also showed the relationship of various variables to export performance for the first time in the "Strategic Export Model" or "A General Model for Assessing Export Performance and Variables" as shown in Figure 1.2 (see Appendix A). This study led to a concise idea of internal variables that would affect export performance.

The major internal variables consist of three factors that can be controlled through management. They are firm characteristics, firm competencies, and firm strategies.

Firm characteristics are composed of the firm's size, consensus in management and acknowledgement of management.

Firm competencies are composed of technology, knowledge of marketing and exporting, planning, export policy, quality control management and communication.

Firm strategies are composed of major variables such as market selection strategy, sales representative selection, product mixture, product development, sales promotion, pricing and personnel.

The Strategic Export Model of Aaby and Slater illustrates how the relationships among major factors in organizational variables affect a company's export performance. However, Glass (1991) criticized the model as having a defect in terms of the way reviews of research works are used, when the researchers presented their variables analyses based on situational assessment. Glass's comment aside, the model is widely referred to in many export studies. It also drew a frame of reference for ideas used in export research.

Chetty and Hamilton (1993) experimented the relationship of various variables that have impacts on export performance as described in Aaby and Slater's model, based on a statistical method called meta-analytical, using a vote-counting process. They also studied other export research and extended the study period for another three years. So Chetty and Hamilton' s literature review covered 1978 to 1991. The result of their study is consistent with Aaby and Slater's in terms of variables. They also found variables in each factor having significant statistical impact on a company's performance. These variables are a firm's characteristics (size, management, attitude to profitability); competencies (technology, marketing knowledge, export analysis); and export strategy (market selection, product mix, prices).

Chetty and Hamilton (1993) commented that only a few research works on export performance yielded clear conclusions and were strong enough in terms of research models. This may be due to simplified relationship linkages in terms of questioning, measurement and research model design. Moreover, most of the studies are survey research of innovation concerned two aspects of exports: entering foreign markets (since the entry of a foreign market by a domestic company is deemed trading innovation), and studying innovation in the aspect of technology only.

It is widely accepted that international marketing is vital to Thailand's economic development if Thailand is to become one of the leaders in the Southeast Asian economy. Development in both public and private sectors, particularly in improving efficiency and quality in exports to gain a greater inflow of foreign currencies, is deemed the key factor to make the country achieve its goal as stated in the National Economic and Social Development Plan (Wechasara, 1989).

Thailand's exports have changed from agricultural product oriented to industrial product oriented. The study of Thailand's exports by Nanak et al. (1997) shows that export growth rates of many products have tended to decline since 1996. Exports of technology-intensive products grew by 10.73 per cent, while traditional agri-product exports grew by only 2.94 percent. Industrial product exports rose by 2.10 per cent, and those of labour-intensive industrial products by 3.31 per cent. Among these, garments and footwear have faced serious problems. The decline is due to the entry of new competitors in both labour and capital-intensive sectors in the Asian market. Thailand's major competitors include India, China, Malaysia and Indonesia.

Jirapaeth (1996) stated that higher labour costs, with the five-year average growth rate of 10.04 percent (1991-1995) and the problem of labour shortages are the causes of higher production costs. Production of export goods in Thailand has to rely extensively on imported capital goods and raw materials. This is considered the major obstacle to the development of the country's export production. Any change in government policies or measures, along with the value of the baht, will have impacts on exporters' production costs. These factors have caused Thailand to lose its competitive advantages in the world market.

Data from the World Competitiveness Yearbook 1996, the International Institution for Management Development (IMD) and the World Economic Forum (cited from Veerapoj Lueprasithkool, 1997) stated that Thailand's competitiveness had declined greatly, ranking last among its competitors in Asia such as Singapore, Taiwan, Malaysia, China, South Korea, the Philippines, and Indonesia. The country needs to be developed in terms of infrastructure, management, science and technology, and personnel. The Thai government has to be responsible for the country's infrastructure development. Developments in science, technology and personnel need stronger cooperation between the public and private sectors, while in management development can be done by the private sector alone (Lueprasithkool, 1997).

Statement of the Problems

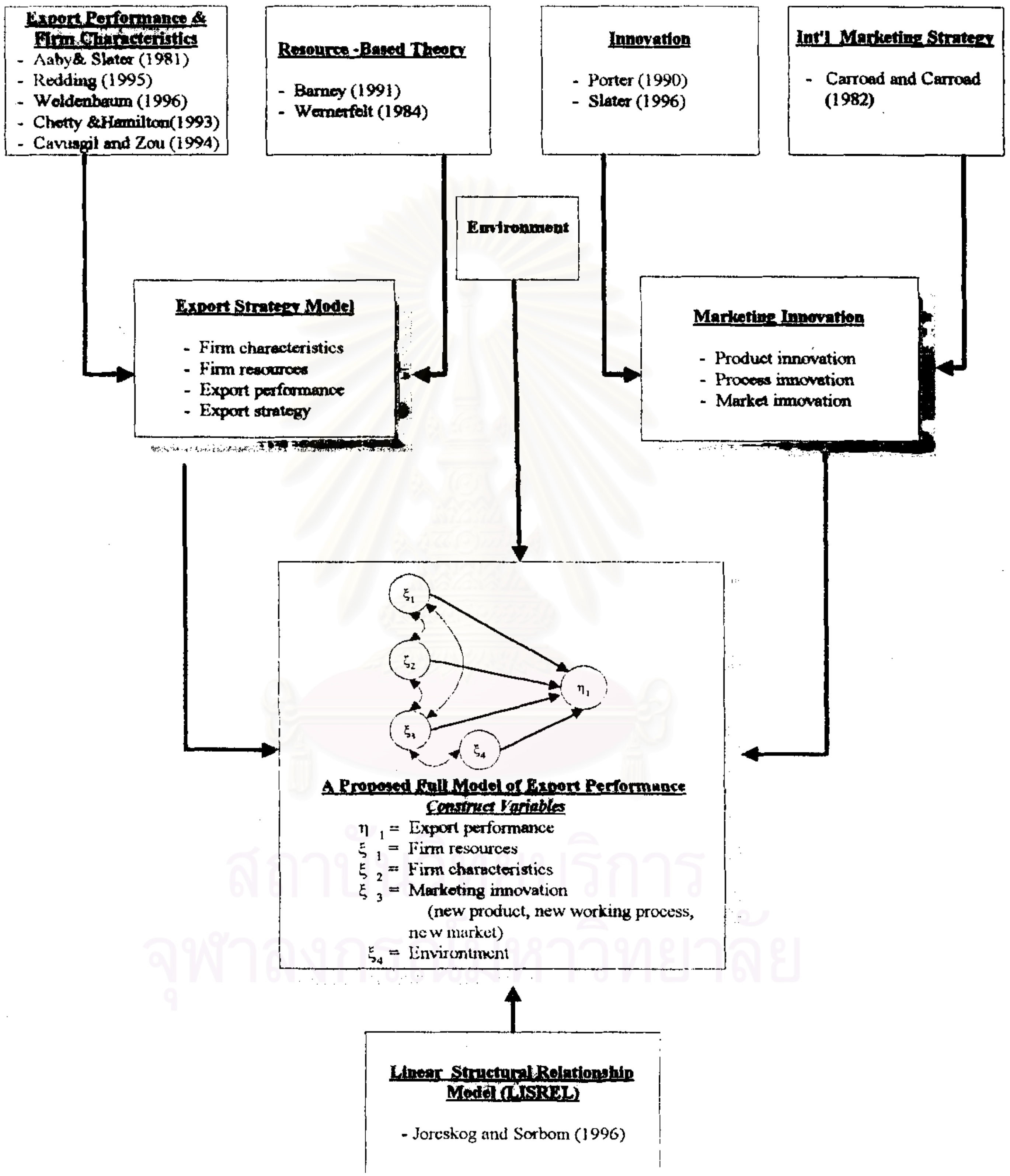
Exporting is one of the key factors in economic development, particularly in developing countries. In Thailand, a declining trend in exports (Kakwani et al., 1997), more competitors in the world export markets (Jirapaeth, 1996) and lower competitiveness in production and management (Lueprasithskool, 1997) are all considered negative aspects of economic development. Systematic research is needed to understand a country's export business, especially international marketing which will enable exporters to set up sustainable businesses and to make great strides in management development for higher competitive efficiency and effectiveness.

In reviewing export performance literature, export growth and other types of export performance are functionally dependent on a country's demand for goods and services (Reid, 1986). While export performance and firm innovation are frequently viewed as interlinked, with technology considered the major factor, no empirical study views the innovation in other aspects beyond the technological framework. However, a number of researchers have suggested that the use of innovation strategy for organizations and countries is considered a sustainable leap-forward development.

This study empirically examines the role of innovation in the meaning of product changes, working process changes, and new approaches to marketing. As Porter (1990) points out, innovations include both improvements in technology and better methods or ways of doing things. Innovations shift competitive advantage when rivals either fail to perceive a new way of competing or are unwilling or unable to respond.

This study reviews a lot of work done in the areas of examining export performance and firm characteristics, resource-based theory, innovation and international marketing. The conceptual framework of "A Strategic Export Model" of Aaby and Slater (1989) and Chetty and Hamilton (1993) is used as the basic framework in building "The Full Model of Export Performance". In addition, this study proposes that firm characteristics might be influenced by business management. Therefore, the construct of the firm characteristics is included in the business management. Environment variables also included as shown in the conceptual model of this study in Figure 1.3.

Figure 1.3 Conceptual Framework of a Proposed Full Model of Export Performance



Research Problems

1. What are major variables that can best explain the marketing innovation of exporting companies in Thailand?

2. What is the "Full Model of Export Performance" and what should be an appropriate relationship among and between factors in the model?

3. How can exporting companies in Thailand improve their performance through marketing innovation strategy?

Objectives of the Study

1. To identify the key variables that can best explain the marketing innovation for exporting firms in Thailand.

2. To verify the proposed model "The Full Model of Export Performance" of exporting firms in Thailand.

3. To suggest the strategy for the development of marketing innovation for exporting firms in Thailand.

Scope of the Study

Three distinctive features should be noted at the outset of research framework.

1. The study is conducted by selecting products from exporting firms located in Thailand.

2. The conceptual framework of this study designates that performance of an export company is directly affected by marketing innovation strategy. In addition, this study uses Cavusgil and Zou's (1994) measurement of export performance that was measured both in the company strategy context and the economic context.

3. The study concentrates on the variables affecting the performance of exporting company suggested by Aaby and Slater (1989) and Chetty and Hamilton

(1993). These variables are firm characteristics, firm resources, firm strategy and export performance.

Operational Definitions

1. **Firm Characteristics** Firm characteristics is based on Aaby and Slater (1989); Chetty and Hamilton (1993); Reeding (1995); and Weidenbaum (1996), consists of firm size, management commitment toward exporting, perception of executives toward profit, number of product lines, and business management.

2. **Firm Resources** Firm resources are defined in this study as the competencies of a firm in terms of marketing knowledge, export analysis, finance, human resources, and technology.

3. **Marketing Innovation** The important term in this study is "innovation", which is defined as practices created by learning or discovering new methods to improve competitiveness within the same industry and presenting the result to markets. Thus, marketing innovation in this study is defined as strategies to promote new products, new working processes, and new markets used by the company during the last five years.

3.1 New Product New product is defined as products that are new, both in terms of the products themselves and brand names to customers in foreign markets.

3.2 New Working Process New working process is defined as adaptation of new technology or new management by export companies or units of the companies to help reduce production costs, or management of export costs of the companies.

3.3 New Market New market is defined as new market to which the company has never exported its products before, either directly or through sales agents. It also includes marketing activities such as new prices, new sales agents and new sales promotions.

4. **Export Performance** Export performance is defined as executives' acknowledgement concerning exports that marketing innovation strategy has yielded results in terms of the firm's performance.

5. **Export Company** This is defined as companies appearing on the list of Thailand Export Companies 1996-1997 which have been in business for at least three years and selling goods to international markets, or companies that produce products as well as carrying out marketing activities overseas.

6. **Environment** Environment is defined as a perception of executives toward environments outside their exporting companies such as politics, regulations, etc.

Contributions of the Study

Major contributions of this study are as follows:

1. It can identify the key marketing innovation variables that affect the export performance of exporting firms in Thailand.

2. The use of the LISREL model for data analysis will systematically test the relationship of firm resources, firm characteristics and marketing innovation on export performance.

3. The Full Model of Export Performance will be beneficial for further studies in explaining and improving the export performance of Thai exporting firms.

4. Export companies in Thailand as well as government agencies such as the Department of Export Promotion (DEP) can use the research findings to help understand the export performance and better explain factors which determine the export performance.

5. Possible new directions for future research can be done, based on this study. Researchers may suggest new variables that can further increase insight and understanding of marketing innovation and export performance. Therefore, new strategies can be developed for improving the export performance.

This study is divided into 6 chapters. Chapter 1 describes and discusses the background and objectives of the study. Chapter 2 reviews the relevant literature which leads to the formulation of the research methodology employed. Chapter 3 presents hypotheses and proposes the full model of export performance. The research methodology is explained in detail in Chapter 4. The findings are then presented in Chapter 5. Chapter 6 presents the conclusions of the study and implications drawn for theoretical contributions, management, public policy makers, and future research.