

Chapter 1

Introduction

Exporting plays a vital role in world economic affairs, and its importance is expected to grow further as markets become more globalized (Young 1995). Exporting is one of many marketing expansion activities of the firm. It is similar to looking for new customers in the next town, next state, or on the other coast; it differs in that national borders are crossed, and international accounts and currencies are involved. In almost every country, government policy makers view exports as a high priority in their national planning policies. From a macro perspective, exports are special because they can affect currency values and the fiscal and monetary policies of governments. On the level of the firm, exports offer the opportunity for economies of scale (Czinkota 1996). It is generally recognized that expansion of a nation's exports has positive effects on the growth of the economy as a whole as well as on individual firms (Cavusgil and Nevin 1981).

One possible way to increase exports at the national level is through stimulating exporting companies to export more. Export promotion involves public policy measures which actually or potentially enhance exporting activity at the company, industry, or national level. Governmental export promotion has become a tool of urgent necessity throughout the world. A favorable governmental export promotion program can enhance the firm's export competency and profitability. Emphasis must be placed on the exploration of export development strategies in order to generate sufficient foreign currency to pay for imports, and the consequences are likely to be national economic prosperity.

1.1 Research Background

As a result of the increasing tendency towards a global economy and the severity of many countries' trade deficit pressures export marketing has received considerable attention over the past several decades. From the point of view of most national governments, exporting is extremely attractive because it allows the

accumulation of foreign exchange reserves, enhances societal prosperity, and helps national industries develop and improve productivity (Czinkota 1994). Given the role that exports play in contributing to the wealth of a nation, export development is certainly an aspect of economic development to which responsible governments must pay attention.

Governments can play a key role in stimulating the international business activity of domestic firms through export promotion programs (Cavusgil and Czinkota 1990). To enhance their export competency, the governments in developed, developing and lesser developed countries provide export promotion programs to assist their exporting firms. However, exporting firms face a multitude of barriers and problems which play an important role in inhibiting firms' involvement in export. The export barriers perceived by firms play a predominant role in explaining their reluctance to export and the types of export assistance they require (Bilkey and Tesar 1977; Ditch, Koeglmayr, leibold, and Mueller 1984). Export promotion programs are provided by governments, trade associations and other organizations to help firms overcome the barriers to export (Wheeler 1990).

The goal of export promotion programs is to enhance export performance by improving firms' capabilities, resources, and strategies and overall competitiveness (Czinkota 1996; Diamantopoulos, Schlegelmilch, and Tse 1993; Seringhaus and Rosson 1990), which in turn, have been demonstrated to improve export performance (Aaby and Slater 1989; Cavusgil and Zou 1994; Zou and Stan 1998). Moreover, Lages and Montgomery (2005) emphasize that benefits provided by exporting activity encourage public policy makers to implement export assistance programs with the objective of helping firms improve their strategy and ultimate to enhance their performance in the international arena.

The literature on topics which relate specifically to export promotion and the export marketing strategy- export performance interface present conflicting findings. While some studies indicate that export promotion has contributed to the development of successful export strategies (Denis and Depleteau 1985; Reid 1984), other studies report that this support has been inadequately targeted, and has no effect in terms of performance (Gray 1997; Seringhaus and Rosson 1990). This explains why the most recent literature on export promotion suggests that there is a strong need

to develop models that incorporate intervening variables that can influence the manner in which export assistance affects export performance (Gencturk and Kotabe 2001). In particular, recent studies on the topic (Francis and Collins-Dodd 2004; Shamsuddoha and Ali 2006) suggest that there is an increasing need to develop more international business research that analyzes the interface between export promotion, export strategy, and performance. The present study broadens the scope of export promotion by addressing export promotion, export marketing strategy, and export performance.

Although governmental export promotion has become a tool of government policy throughout the world and has received increasing research attention over the past decades (Cavusgil and Nevin 1981; Czinkota 1996; Seringhaus 1993a; Seringhaus and Rosson 1990; Young 1995), research studies on the impact of export promotion programs on export performance are limited, and there is no consensus on how this should be done (Francis and Collins-Dodd 2004). Part of the difficulty with measuring the impact of export promotion programs is that export promotion is not a business activity per se, but rather facilitates firms' own activities in a wide variety of ways. The other difficulty is that many factors, of which export promotion programs are only one, influence companies' export behavior and performance (Francis and Collins-Dodd 2004). Hence disentangling the specific effects of export promotion is difficult (Seringhaus and Rosson 1990).

Most researchers have focused on measuring the awareness and usage of export promotion programs as an indication of their success (Wheeler 1990). Results of awareness and usage level of these programs are conflicting and have been shown to be poor indicators (Dominguez and Sequeira 1991; Kedia and Chhokar 1986; Marandu 1995; Vanderleest 1996). Although use and awareness may be helpful for program planning, they are not measures of impact, that is, awareness does not necessarily lead to usage. Second, awareness evaluates the effectiveness of the communication of the program, not necessarily the contribution of the program itself. Further, usage of programs per se gives no indication as to the effectiveness of these programs in achieving their intended results (Francis and Collins-Dodd 2004). However, some researchers maintain that usage of export promotion programs can be a good indication of export success (Francis and Collins-Dodd 2004; Gencturk and

Kotabe 2001; Marandu 1995; Shamsuddoha and Ali 2006; Singer and Czinkota 1994). Firms' perceptions of the usefulness of these programs have also been used as proxies to measure their impact. Attitudes towards government programs and perceptions of helpfulness or usefulness of export promotion programs provide valuable information, but cannot be considered impact studies (Clarke 1991; Diamantopoulos et al. 1993; Sbrana and Tangheroni 1991). Firms may give high ratings to programs that in fact have no influence on their export position and competitiveness (Francis and Collins-Dodd 2004).

A number of studies of the export promotion and export performance relationship have examined only firms' usage of export promotion. Most studies do not incorporate firms' satisfaction with governmental export promotion programs into the study. In past studies, satisfaction is measured in many ways. While satisfaction has successfully been examined both in consumer and firm relationships, investigations into the perspectives of the firm-government relationship has received little attention. Particularly in the export promotion context, there have been few studies on satisfaction. Marandu (1995) suggested on the basis of an empirical study of Tanzanian firms that the level of satisfaction with export promotion services had a positive impact on export performance, as measured by export intensity. However, Marandu (1995) failed to clearly conceptualize the relational path between export promotion programs and export performance. Furthermore, statistical rigor was a limitation of the Marandu (1995) study where measures of association were primarily used and the hypothesized relationships were tested utilizing Chi-square analysis. In particular, Marandu (1995) suggests that there is a need to conduct more empirical research in order to validate the relationship between satisfaction with export promotion services and the export performance of firms. In addition, the research by Aaby and Slater (1989) showed the influences of management perceptions towards government incentives on export strategy and export performance. Satisfaction with export promotion programs should receive more attention as a key measuring indicator of export marketing strategy and export promotion success. Therefore, an assessment of the effectiveness of export promotion programs that incorporates satisfaction with export promotion programs, export marketing strategy and export

performance is an important step toward understanding the export development of a country.

Much assistance has been devoted by governments to accelerate export expansion, both export service programs and marketing development programs (Kotabe and Czinkota 1992). These promotion programs have had only limited success. Therefore, it necessary to systematically investigate the performance of export promotion programs in order to facilitate their further development. Despite increasing scholarly attention over how to improve the effectiveness of assistance programs (Kotabe and Czinkota 1992; Moini 1998; Seringhaus and Botschen 1991) the effect of export promotion programs on firm export performance has not been examined conclusively (Shamsuddoha and Ali 2006).

One important approach to studying program effectiveness has been to focus on identifying the barriers that exporters face in order to suggest the potential needs that need to be fulfilled (Brooks and Frances 1991; Dominguez and Sequeira 1991; Ramaswamai and Yang 1990). In some cases, barriers are explicitly matched to current program offerings, and judgments are made as to the degree to which exporter needs are being met (Crick and Czinkota 1995). This approach is based on research that indicates that perceived barriers to exporting affect the behavior of exporters (Bilkey and Tesar 1977). Kotabe and Czinkota (1992) proposed a model to improve the effectiveness of export assistance in a study of export promotion in a mid-western US state. They identified existing gaps between governmental assistance offerings and clients' assistance needs based on a comparison of export-related problems and export assistance desired by firms. They also developed indices that reflect the extent to which export assistance desired by firms and the allocation of export assistance efforts across various problem areas. Export assistance value indices were computed from the difficulty of export problems relative to the firms' export business and the extent of assistance that firms would expect from the export promotion agency.

The export-related problems were identified from previous research by Czinkota (1982), focus on some additional items found in their study. The export promotion effort indices were computed from the score distribution that the staff of the export promotion agency felt reflected the allocation of resources for firms in each

stage of the export development process. In conclusion, Kotabe and Czinkota (1992) found a gap between exporters' priority assistance requirements and the level of government assistance allocated to improve the effectiveness of exporting. The concept of gap analysis is crucial, and an acceptable methodology is needed to assess the effectiveness of governmental programs in order for trade organization to improve their assistance measures. Their study, however, was conducted in only one state in the U.S., and it contained methodological limitations that did not allow a good measure of export performance relative to the gaps. This failure stemmed from the subjective method used to obtain information on the export promotion agency's allocation of efforts and resources.

To improve the effectiveness of export promotion programs, it is therefore necessary to systematically examine the association between perceived gaps in export promotion programs and export performance with rigorous statistical methods. Since gap research can play an important part in designing export promotion programs, it would be desirable to broaden our current knowledge of the evaluation of export promotion efforts. To address the limitations of the Kotabe and Czinkota method, this study offers a new perspective of gap analysis called "perceived gap" while retaining some important notions of their operationalization of the concept. This study applies satisfaction theory to operationalize the concept of the perceived gap. Based on customer satisfaction theory, satisfaction is one of the key global constructs used to predict buyer behavior, including future buying intentions (Ellen and Mark 1999). It considers the customer's reactions to the perceived difference between performance appraisal and performance expectation (Hennig-Thurau, Gwinner, and Gremler 2002). Satisfaction is measured as the outcome of a comparison between expected and perceived actual performance of a product or service (Kotler 2003, p. 61). This study identifies firms' perceptions of the importance of activities for export operations as an indicator of the areas in which they would most desire (i.e. expert) assistance from export promotion agencies by deriving them from export-related problems firms face. Perceived actual performance is then measured by the extent of satisfaction that exporters express with export promotion programs designed to address the various export activities. The level of satisfaction refers to how well the export promotion programs deal with the activities. The extent of the perceived gap is then related to

the export success of firms. Large perceived gaps indicate that the actual performance of government assistance does not match the firms' expectations. Large perceived gaps suggest that firms are dissatisfied with current offerings and that such lack of support will be manifested in lower export performance when compared with firms that exhibit relatively small perceived gaps. This examination is expected to improve the effectiveness of export promotion programs and to address the limitations of previous studies by identifying the relationship between export promotion programs satisfaction and firms' export performance.

The level of export involvement of firm is also reported to be relevant to firms' export marketing strategy and export performance. Madsen (1989) found that a firm's exporting experience has a positive effect on export performance and on their attitudes toward future exports (Gripsrud 1990). Douglas and Wind, (1987) and Cavusgil and Zou, (1994) suggested that the more internationally experienced a firm is, the more likely it is to have competence in international operations. A competent firm is able to select better export markets, formulate suitable export marketing strategy, and effectively implement the chosen strategy. International experience enables firms to better gauge environmental conditions and to adapt marketing strategy to accommodate specific needs of the international markets (Cavusgil and Zou 1994). An inexperienced firm seeks the closest match between its current offerings and foreign market conditions so that minimal adaptation is required (Douglas and Craig 1989). When experienced managers are committed to a venture, they carefully plan for the allocation of sufficient managerial and financial resources to the venture. With formal planning and resource commitment, uncertainty is reduced enabling marketing strategy to be implemented effectively, thus leading to better performance (Cavusgil and Zou 1994).

Czinkota (1996) and Seringhaus and Rosson (1990) found that export assistance influences export performance indirectly. Assistance programs are seen as instrumental in augmenting organizational and managerial capabilities/competencies and ultimately improving these firms' chances for success in the international market place (Francis and Collins-Dodd 2004). When export assistance is viewed in this way, it becomes clear that firms at different stages of export involvement have different competencies, resources, and strategies and face different obstacles to

achieving their export objectives. Hence, firms differ greatly in their export marketing strategy depending on their level of export involvement.

In light of the previous evidence, this study endeavors to draw more definitive conclusions regarding the relationship between firms' characteristics and the export involvement of the firm. It is further expected that the study will establish the relationship between these variables and export marketing strategy and its consequent effect on export performance.

This study intends to further expand international marketing research by examining a cross section of firms located in a developing country. It can make a significant contribution to an understanding of the impact that export promotion programs and export strategy have on firm export performance.

1.2 Research Problem Statements and Research Questions

1.2.1 Research Problem Statements

The previous section has shown that little is known empirically about the appropriateness of public assistance for exporters. To improve the effectiveness of government export promotion, this research investigates the satisfaction with government export promotion activities perceived by firms. Moreover, the impact that firms' satisfaction with export promotion programs has on firm export performance has received little attention in the export literature. Therefore, this study attempts to investigate the direct and indirect impacts of perceived satisfaction with export promotion programs on export performance. The research problem investigated by this dissertation is:-

How do government export promotion programs satisfy their constituent firms, how export marketing strategy is implemented by firms, and how these factors impact export performance? In addition, the study attempts to determine how export promotion programs can be more effective for firms from the exporter's perspective?

1.2.2 Research Questions

Appropriate research questions encapsulating the research problem are:

1. How do the firms' export involvement and firms' satisfaction with export promotion programs directly and indirectly affect firms' export performance?
2. Are there any differences (perceived gap) between firms' perceptions of the importance of activities for export operations and firms' satisfaction with export promotion programs? If yes, how does this perceived gap affect export performance?

To answer these questions, the main objective of this study is to develop and test a comprehensive model to examine the effect of satisfaction with governmental export promotion programs on firm export performance. A perceived gap variable is created and used to test the influence of perceived gap on export performance. A conceptual research model is developed from the literature and is empirically tested with primary data collected for the study.

1.3 Purposes/Objectives of this Study

The purposes of this study are to understand export promotion and export performance in a developing country in terms of: (1) exporters' satisfaction with governmental export promotion efforts in terms of how they impact export performance; and (2) provide policy recommendations to improve export promotion appropriateness and effectiveness.

This dissertation extends the model initially developed by Kotabe and Czinkota (1992) to determine the appropriateness of government export assistance effects. Their research analyzed the gap between governmental export promotion efforts and private sector needs. Their study is used to provide the initial research framework for understanding the need to improve the effectiveness of export promotion strategies in a developed country. However, this and most previous research were conducted in the US and other western countries, while most developing countries lack the knowledge base and the substantial financial support offered in developed countries. The impact of firms' satisfaction with export

promotion programs on firm export performance model developed by Marandu (1995) attempted to address this problem by integrating findings from both developed and developing countries. In this study, one particular way of differentiating between firms – the industry level such as stages of export involvement, firm characteristics– is considered in terms of its usefulness as a method of segmenting firms for the export promotion assistance. The specific objectives of this dissertation study are stated below:-

1. Extend the model of Marandu (1995); by further investigating the relationship between firm's satisfaction with export promotion programs and export performance;
2. Substantiate the postulated causal relationships between export marketing strategy and export performance;
3. Substantiate the postulated causal relationships between firm export involvement, and export performance;
4. Employ satisfaction theory to create the perceived gap analysis model by adjusting the model developed by Kotabe and Czinkota (1992);
5. Test the relationship between the perceived gap and export performance; and
6. Explore the potential academic, managerial, and governmental policy implications arising from the results.

1.4 Research Contributions

The study is intended to broaden research and empirical knowledge about the impact of satisfaction with export promotion programs on firm performance. The contributions fall into three categories: theoretical advancement of existing export performance literature, advances in public policy issues relating to export promotion and practical assistance to exporting firms. First, from a theoretical perspective, knowledge on the impact of export promotion programs on the export performance of a firm is very limited. This study contributes to the literature as to how satisfaction with governmental export promotion programs can influence firm export performance. It includes satisfaction with governmental export promotion programs

as an independent determinant in the export performance model and empirically tests a number of hypotheses linking satisfaction with governmental export promotion programs with other determinants of export performance. Moreover, most studies in the literature use the financial impact for measuring export performance. This study used both financial and strategic measurements of firm performance.

Second, most previous studies in this field have been conducted and tested in developed country contexts. A systematic review of the pertinent empirical literature suggests that the vast majority of the research efforts have surveyed firms connected with exporting from highly industrialized countries. This study fills a much needed gap in the literature with empirical findings concerning export behavior of developing country firms, thereby increasing the generalizability of the findings.

Third, this study contributes to the extension of satisfaction theory, particularly satisfaction with respect to the relationship between firms and governmental organizations. The incorporation of satisfaction will improve our understanding at the relationship between firms and governments. Moreover, it can potentially lead to higher confidence among firms with respect to public policy that is directed toward improving their performance.

Fourth, the study provides a guideline for managers of exporting firms as to how they can benefit from export promotion programs in improving their positive attitude towards the export market environment for better success in their international operations.

Finally, this study provides guidelines to policy makers for effectively designing and targeting export promotion programs in a developing country context.

1.5 The Research Context

The research setting is the country of Thailand. Thailand is a developing country in South East Asia, characterized by a strong economic growth, growth in exports, and a growing positive investment environment. A systematic review of the pertinent empirical literature suggests that the vast majority of exporting studies to date have been conducted in highly industrialized, developed countries (e.g., the US, Canada and Western European countries) with very little attention given to

developing countries, especially those in South East Asia (Julian and O'Cass 2002). An implication of this bias in past studies is that it may be potentially misleading to infer generalizations from such findings to export marketing contexts in other countries, especially those at a different stage of development and /or with different market sizes (Katsikeas, Piercy, and Ioannidis 1996).

In view of these limiting empirical considerations in the export literature, an attempt is made to synthesize and empirically examine this study with an export study that focuses on exporters from a developing country, especially in South East Asia. The export marketing performance of South East Asia export market ventures are an important dimension of contemporary business because many of these markets are used for the re-export of products/services to third markets. For example, Thailand is an important market because of its strong economic growth, growth of exports, and growing investment since 1980 (Julian and O'Cass 2002). Thailand is considered to be a good location for the study because it satisfies the conditions from which the potential contributions of the study can be derived. Prior to the economic and political crisis of 1997, Thailand had seen economic growth rates averaging between 8 and 10 percent for the previous ten years, coupled with solid foreign investment ("Economist Intelligence Unit " 1994). Since the economic crisis in 1997, Thailand has experienced marked improvement in the economy with economic growth rates of 4.0 and 6.6 percent for 1999 and 2000 respectively ("Far Eastern Economic Review" 2000), indicating that the economy has made a significant recovery. Much of Thailand's growth can be attributed to exports. The Thai economy was expected to grow 4.3 percent in 2007 compared to 5 percent in 2006. GDP growth in 2006 and 2007 was driven mostly by relatively strong exports, which were maintained despite continuing appreciation of the Thai baht against the dollar. This suggested that the fundamentals of the Thai productive economy remained strong, even though political and policy uncertainties have weakened private consumption and investment (WorldBank 2007).

In addition, a review of the literature indicated that Thailand is the country where interest in marketing performance research among academics is increasing (Julian and O'Cass 2000; Julian and Ramaseshan 1999). Past research on Thailand has focused on export performance but tended to ignore export promotion in

explaining international trade operations. Thus, a study that evaluates the impact of satisfaction with governmental export assistance on exporter performance would be more appropriate, for it would permit assessment of the provision of a particular service and the export performance of those firms which benefited from it.

In addition, the Thai economy has been chiefly export driven, and manufacturing has been mainly in the final process or assembly stage. Since the 1990's, the Thai economy has shifted from a dependence on labor-intensive manufacturing to higher value-added products (*"Far Eastern Economic Review"* 1995). Therefore, manufacturing firms and trading firms represent an interesting sector for this study in order to examine the impact of export promotion programs. Many firms in all sectors are growing fast, competitive, and opportunistic in international markets. The export sector is a priority for government support. Moreover, Thailand provides rich opportunities for such research, with 8,729 manufacturing firms and 17 trading firms located in Thailand in 2005-2006 (Department of Export Promotion 2006).

1.6 Organization of the Dissertation

This dissertation contains six chapters which describe all aspects of the study. Chapter 1 is an introduction which presents origins of the dissertation, dissertation objectives, research problems, and research contributions. It also contains the justification for the research, overview of the methodology, and definitions of key constructs.

Chapter 2 reviews literature related to the topic with specific focus on the major concepts that impact this research. The literature is classified into six streams: theoretical background, empirical studies conducted on internationalization, export problems, export promotion, satisfaction, export marketing strategy, as well as export performance which provide the theoretical framework within this study.

Chapter 3 presents the research model, conceptual definitions of the research variables and detailed hypotheses of the study.

Chapter 4 describes research methodology. It covers operational definitions and measurements of the variables, survey procedures and methods used to

collect the data, the sampling plan, and statistical techniques for data analysis used in this study.

Chapter 5 presents data analysis of data and results. Findings of the statistical analyses are reported and interpretations of the results are discussed.

Finally, Chapter 6 presents a summary of the study and its findings, the conclusion drawn from the research issues. This chapter also includes a discussion of the study's implications for theory and practice. This chapter concludes with a discussion of the limitations of the study and suggestions for future research.