

## **Chapter 3**

### **The Research Model and Hypotheses Formulation**

#### **3.1 Introduction**

The main purpose of this study is to investigate the impact of firms' satisfaction with governmental export promotion programs on firms' export performance. As reviewed in Chapter 2, a number of prior research projects have studied the impact of the use of export promotion programs on export performance. Few research projects have examined relationship between firms' satisfaction or dissatisfaction with export promotion programs and export performance. A model of export performance integrating firm related factors has been constructed for this study to examine the direct and indirect impact of firms' level of satisfaction with export promotion programs on export performance.

#### **3.2 Conceptual Model Development**

A diagram of the proposed conceptual model for this study was developed in the literature review in the previous chapter and is presented in Figure 3.1. A review of the relevant literature suggests that firm export performance is likely to be highly correlated with firm's satisfaction with export assistance programs and the firms' export marketing strategy (Marandu 1995; Shamsuddoha and Ali 2006). This implies that satisfaction with export promotion assistance potentially has a relationship with export performance. Thus, this study examines factors that influence firms' satisfaction with export promotion programs and relates them to export performance. It mainly analyzes the interface between firm's satisfaction with export promotion programs, export marketing strategy, and export performance.

The conceptual research model for this study can be divided into three main parts as shown in Table 3.1. The first part is a set of antecedents. There are two independent variables consisting of the firms' export involvement and the firms' satisfaction with export promotion programs. Drawing on the extant literature on

export promotion and export performance, a new variable is developed which is called the “perceived gap”. The perceived gap in this model is the value of the satisfaction index, produced from the firms’ perception of importance of activities for export operations times the firms’ level of dissatisfaction with the export promotion programs provided by the government agencies. Details of the development of the perceived gap development are discussed in section 4.2.3, Chapter 4.

The second part of the model is the firms’ export marketing strategy, which is considered to be a mediating variable. Export marketing strategy is the key factor influencing export performance (Cavusgil and Zou 1994) and is comprised of two main strategic factors: general export strategy and export marketing mix strategy. The conceptual framework proposed in Figure 3.1 shows that export marketing strategy is determined by factors that are both internal and external to the firms. Export involvement of the firms is an internal factor in the model, whereas the firms’ satisfaction with export promotion programs is presented as an external factor. The third part of the model is subjective performance which is proposed as being a consequence of the dependent variables. Similar to Cavusgil and Zou (1994), the proposed conceptualization of this study posits a link between firms’ satisfaction with governmental assistance and performance through export marketing strategy, highlighting the central role that export marketing strategy plays in performance. The rational connections of all mentioned variables with export performance are examined collectively and simultaneously, rather than on a bivariate basis.

This model proposes that subjective performance is directly affected by firm export involvement, perceived gap of export promotion programs, and export marketing strategy, both general export strategy and marketing mix strategy. Additionally, it is proposed that subjective performance is indirectly affected by the firm’s export involvement and the perceived gap of export promotion programs and through the influence exercised by these variables on export marketing strategy. The theoretical supporting background and conceptual definitions of all variables in this framework will be discussed below.

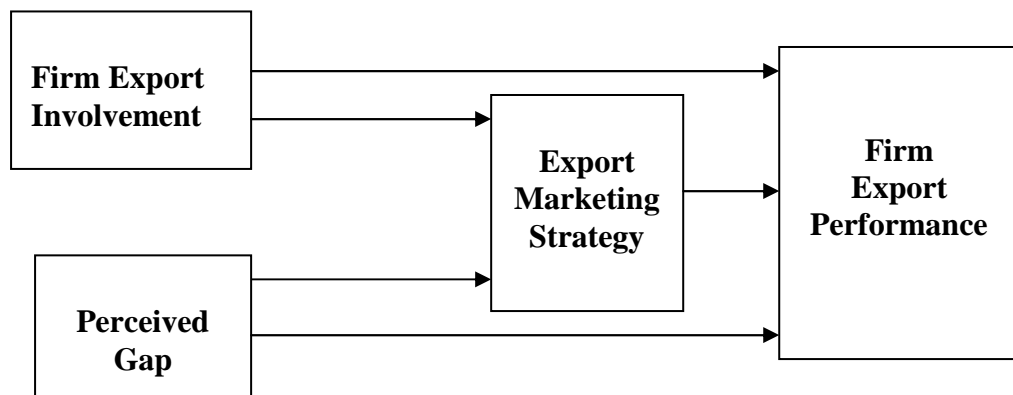
A more detailed version of Figure 3.1 is shown in Figure 3.2. The research questions have been transformed into 8 hypotheses. Arrows in the figure indicate the direction of the hypothesized causal paths. The following section will

discuss the conceptual definitions and the origins of the five variables of interest, as summarized in Table 3.1.

**Table 3.1**  
**Main Part of Research Conceptual Model**

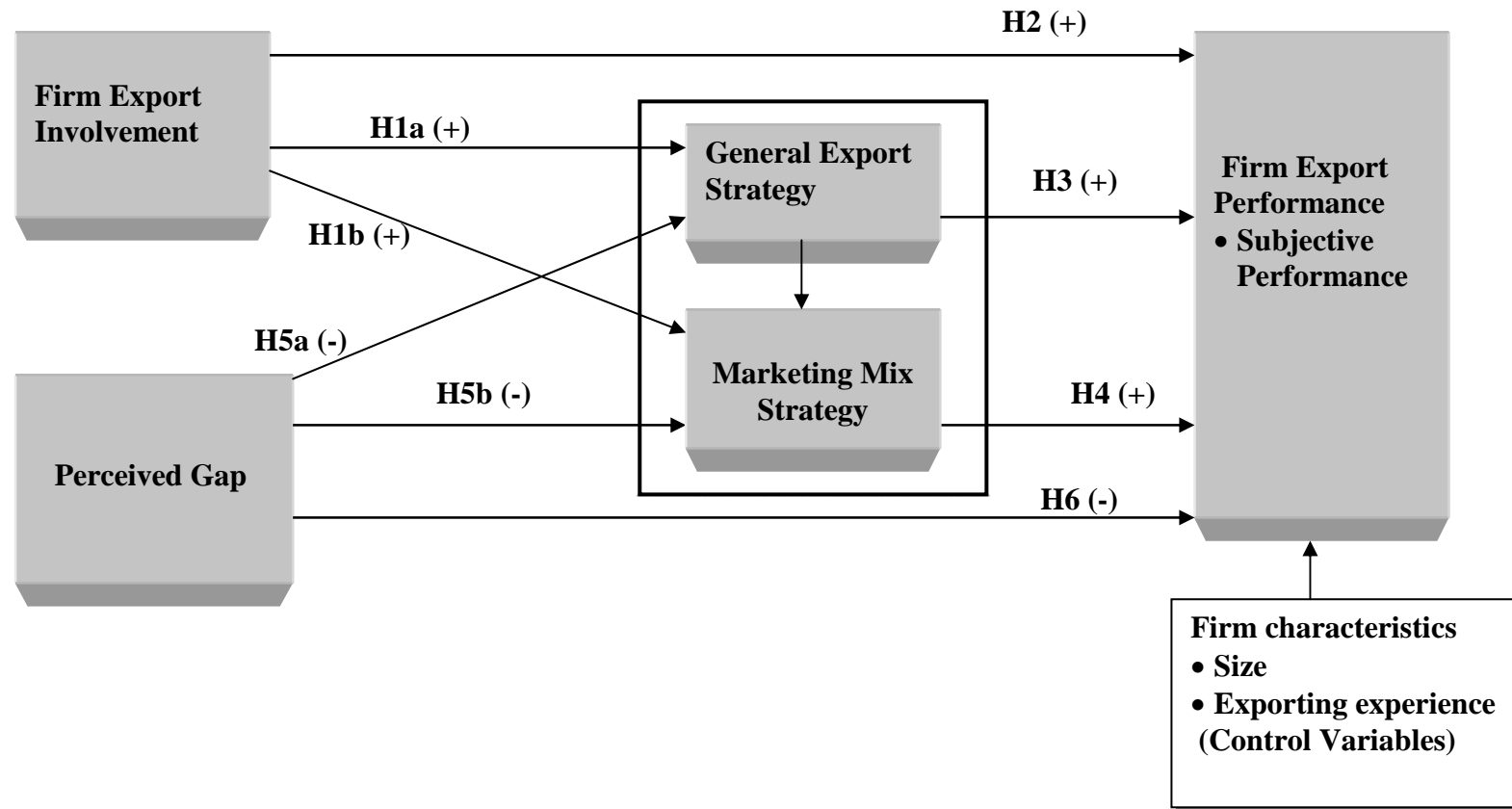
<b>Antecedents</b>	<b>Mediator</b>	<b>Consequences</b>
1. Firm export involvement 2. Perceived gap (Value of firms' dissatisfaction index with export promotion programs)	Export Marketing Strategy <ul style="list-style-type: none"> <li>• General export strategy</li> <li>• Marketing mix strategy</li> </ul>	Firm Export Performance <ul style="list-style-type: none"> <li>• Subjective performance</li> </ul>

**Figure 3.1**  
**Research Conceptual Model**



Before presenting a detailed description of the development of the hypotheses, there will be a thorough explanation of the main variables of interest that are incorporated in the model in order to understand the background and scope of the next stage of the research. Firm export involvement, export marketing strategy, and export performance are first discussed, followed by the perceived gap variable which represents the major contribution of this study, lastly, the control variables are discussed. Conceptual definitions and the origins of the variables of interest are summarized in Table 3.2.

**Figure 3.2**  
**Main Effects in Research Conceptual Model**



### **3.2.1 Export involvement**

Export involvement refers to the stage of export development that a firm currently exhibits. Firms tend to go through a number of stages as they become increasingly involved in export operations. The number of stages of export involvement proposed in prior research ranges from three to six. This study defines export involvement as the degree of experience the firm has in exporting by adapting the model of export involvement proposed by Bilkey (1978) and Kotabe and Czinkota (1992). The details of export involvement measurement used in this study is discussed in Section 4.2.5. Export involvement in this study is designed to examine the impact of firms' export involvement on their export marketing strategy that eventually influence export performance. The framework of this study is partly built on the internationalization model discussed in Chapter 2, Section 2.2.2. This study employs internationalization theory to explain export marketing strategy and export performance at different stages of firms export involvement.

### **3.2.2 Export marketing strategy**

Traditionally, export marketing strategy has been defined in terms of market selection (i.e., degree of worldwide orientation and market segmentation) and product strategy (Cooper and Kleinschmidt 1985). Contemporary marketing focuses not only on product strategy but also on integrated marketing activities, i.e., general export strategy, identification of export customers, marketing research utilization, export planning, export organization, product, price, promotion and distribution (Cavusgil and Zou 1994; Shamsuddoha and Ali 2006; Zou and Stan 1998). Export marketing strategy in this study relates to two factors: the overall general export strategy and export marketing strategy related to the marketing mix variables. Export marketing strategies have been important predictors of export performance. All export marketing strategy-related studies have found a positive relationship between strategy and export success (Shamsuddoha and Ali 2006). The combined tendency in the reviewed studies seems strong enough to conclude that the effect of export marketing strategy on export performance is positive.

### 3.2.3 Export performance

Export performance is defined as the extent to which a firm's objectives (both economic and strategic) for exporting a product into a foreign market are achieved through the planning and execution of export strategy (Cavusgil and Zou 1994). A variety of outcome measures have been proposed and evaluated in the export performance literature. The one common finding in the more recent research is that multiple measures are necessary to capture the unique and valuable facets of performance (Diamantopoulos 1999; Katsikeas, Leonidou, and Morgan 2000; Shoham 1998; Styles 1998; Zou and Stan 1998). Katsikeas et al's (2000) review of the export performance measurement literature identified some categories of performance outcomes: (1) economic measures based on sales, profits and market share; (2) non-economic measures related to export markets (such as number of countries exported to), products and miscellaneous items (including projection of export involvement); and (3) generic subjective measures (including perceived export success, achievement of export objectives, satisfaction with specific export performance indicators and in general).

Subjective measures enable a much wider range of outcomes to be addressed. Some researchers have argued for the inclusion of managers' perceptions of the extent to which they have achieved their objectives as a bona fide measure of performance, because they are the only one who knows their export goals (Seifert and Ford 1989; White, Griffith, and Ryans 1998). Further, Shoham (1998) found that objective measures of sales, profits and growth are strongly correlated with the subjective measures of satisfaction with these outcomes. Only subjective measures of export performance are adopted for this study based on the contribution from Katsikeas, Piercy and Ioannidis (1996)'s measurement schema. Subjective measures are the firms' perception with regard to the achievement of export objectives (Lages and Montgomery 2005; Shoham 1998) and satisfaction with the trend of export performance (Madsen, T.K. 1989).

### 3.2.4 Perceived Gap of Export Promotion Programs

The perceived gap variable used in this study is developed to measure the levels of satisfaction of firms with government export promotion programs. The basic concept used in developing the perceived gap consists of Importance Performance Analysis (Kotler 2003) and Fishbein's Multiattribute Model of attitude (Assael 1995).

Importance Performance Analysis proposes that the service quality of a provider is related to customers' service expectations and perceptions (Kotler 2003). Customers compare the perceived service with the expected service. If the perceived service falls below the expected service, customers are disappointed. If the perceived service meets or exceeds their expectations, they are apt to use the provider again. This study identifies firms' perceptions of importance of activities for export operations as an expected performance by deriving them from export-related problems firms face. Perceived actual performance is measured by the extent to which firms express satisfaction with government export promotion programs that relate to the various export activities. The level of satisfaction refers to how well the export promotion programs deal with the activities. Research and practitioners have begun to recognize that the study of customer's responses to dissatisfaction have significant implications for such key phenomena as brand loyalty and repurchase intentions. The contribution of the customer dissatisfaction research has been highlighted and has spurred further advances in this area (Singh 1990).

Fishbein's multiattribute model is one of the attitude model explaining the relationship between attitudes and behavior. It proposes a linkage between brand (object) evaluations (Ao) and intended or actual behavior: A positive (negative) attitude toward a brand will increase (decrease) the likelihood that consumers intend to buy it. Positive buying intentions are likely to lead to actual behavior. Fishbein's model states that an attitude (A) toward an object (o) depends on consumers' beliefs (b) that the object has certain attributes (i) and on the evaluation (e) of these product attributes (i). Tricomponent Attitude Model, another important model of attitude can support the appropriateness for using Fishbein's multiattribute model in developing the perceived gap. According to the tricomponent attitude model, attitudes consist of

three major components: a cognitive, an affective, and a conative component (Shiffman and Kanuk 2004). Cognitive component consists of a person's cognitions. The affective component is consumer's emotions or feelings about a particular product or brand constitute the affective component of an attitude. These emotions and feelings capture an individual direct or global assessment of the attitude object (i.e., the extent to which the individual rates the attitude object as "favorable" or "unfavorable," "good" or "bad"). Conation is concerned with the likelihood or tendency that an individual will undertake a specific action or behave in a particular way with regard to the attitude object. This study focuses on the affective component in which to assess the exporters' feelings with export promotion programs (object).

Applying the two basic concepts mentioned above, the perceived gap value used in this study is the product of the value of the perceived importance of each export activity relative to value associated with the level of satisfaction expressed with governmental assistance programs designed to assist firms perform each export activity.



**Table 3.2**  
**Conceptual Definitions and Origins of the Five Variables of Interest**

<b>Firm Export Involvement</b>	
<b>Export involvement stage</b>	The degree of export involvement of the firm, by identifying stage of development in exporting of the firm (Adjust from Kotabe and Czinkota, 1992). Export involvement of this study was measured via respondents indicating their firms' exporting experience on a 10- point bipolar scale (1= Very inexperienced Exporter, 10 = Very experienced Exporter).
<b>Export Marketing Strategy</b>	
<b>General export strategy</b>	The means by which a firm responds to the interplay of internal and external forces to meet its objectives. It covers all aspects of the identification of export customers, developing export planning and strategies, export organaiztion, and market research utilization (Zou and Stan, 1998; Shamsuddoha, 2006).
<b>Marketing mix strategy</b>	The means by which a firm responds to the interplay of internal and external forces to meet its objectives. It involves all aspects of marketing mix tools, including product, promotion, pricing, and distribution. (Cavusgil and Zou, 1994; Zou and Stan, 1998).
<b>Firm export performance</b>	
<b>Subjective Performance (Non-financial performance)</b>	1. The firm's perception of its achievement of exporting objectives (Shoham,1998; Lages et al.,2004). 2. The firm's perception of satisfaction with the trends of its export performance (Madsen,1998).
<b>Perceived Gap</b>	
<b>Perceived Gap (Value of Dissatisfaction Index)</b>	Value of dissatisfaction derived from perception of importance of export activity relative to the firm and dissatisfaction with governmental assistance programs designed to assist firm's export activity. (New definition)

**Table 3.3**  
**Conceptual Definitions and Origins of the Control Variables**

<b>Firm Characteristics (Control Variables)</b>	
<b>Firm size</b>	1. Total number of full time employees in the firm (Ditch et al., 1990). 2. Total assets of the firm (Ditch et al.,1990; Seringhaus ,1993; and Lages et al.,2005).
<b>Firm exporting experience</b>	Years the firm has been in exporting (Shamsuddoha, 2006).

### 3.3 Hypotheses Formulation

The conceptual model employed this research involves eight specific hypotheses. This section presents each hypothesis in detail. All hypotheses are stated in the form of alternative hypotheses.

#### 3.3.1 Hypotheses involving Firm Export Involvement and Export Marketing Strategy and Export Performance

- H1: Export involvement is positively associated with export marketing strategy.
- H2: Export involvement is positively associated with subjective performance.

Export involvement deals with the stages of export development of a firm. The internationalization process and export involvement process indicates that the export activities of a firm develop through a gradual process as the firm goes from one stage move to the next, ultimately reaching the stage of global operations (Cavusgil 1980; Crick 1995; Rao 1990; Sharkey *et al.* 1989). Changing from one stage to the other is a deliberate strategy of the firm based on its organizational and managerial capabilities. 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 marketing strategy, and effectively implement the chosen strategy. When managers are committed to a venture, they carefully plan the allocation sufficient managerial and financial resources to it. With formal planning and resource commitment, uncertainty is reduced, enabling marketing strategy to be implemented effectively and leading to better performance (Cavusgil and Zou 1994). Therefore, it can be concluded that export involvement process has an impact on export marketing strategy and export performance. At specific stages, different problems arise which call for distinctive strategies to overcome those problems and consequently achieve different export performance. Export marketing strategy

consists of two main strategic factors: general export strategy and marketing mix strategy. It is therefore hypothesized that:

- H1a: Export involvement has a positive impact on the general export strategy to be adopted.
- H1b: Export involvement has a positive impact on the marketing mix strategy to be adopted.
- H2: Export involvement has a positive impact on subjective performance.

### **3.3.2 Hypotheses Involving Export Marketing Strategy and Export performance**

Export marketing strategy is a mediating variable in this study. It has been found to be a key factor impacting export performance (Cavusgil and Zou 1994). Export marketing strategy is defined as the degree of adaptation or standardization of the marketing mix required in foreign markets (Cavusgil and Zou 1994), thus directly influencing export performance. Zou and Stan (1998) proposed that export marketing strategy involves strategic factors categorized into general export strategies and export marketing strategies related to marketing mix variables. Export marketing strategy in this study is comprised of general export strategy and marketing mix strategy based on Zou and Stan (1998). General export strategy involves strategic factors of export customers, marketing research utilization, export planning, export organization, providing sufficient budgets to exploit overseas markets and identifying export countries to enter. Marketing mix strategy covers the identification of brand strategies, pricing strategies, channel strategies, and promotion adaptation and intensity. On the whole, previous studies have provided evidence that export marketing strategy is associated with export performance. Therefore, there is expected to be a positive relationship between firms adopting an adapted general export strategy and marketing mix strategy and overall performance, and as such:

- H3: Firms' general export strategy has a positive impact on subjective performance.

- H4: Firms' export marketing mix strategy has a positive impact on subjective performance.

Based on Zou and Stan (1998), general export strategy involves overall strategic factors of firms, it can be assumed the positive effect of general export strategy on marketing mix strategy. The relationship between these two variables is off interest of this study, thus this study does not hypothesize the relationship between general export strategy and marketing mix strategy.

### **3.3.3 Hypotheses involving Perceived Gap of Export Promotion Programs and Export Marketing Strategy and Export Performance**

- H5: Perceived gap with export promotion programs has a negative impact on export marketing strategy.

Export promotion programs are provided by governments, trade associations and other organizations to help firms overcome the problems of exporting (Wheeler 1990). Past research indicates that export assistance has contributed to the development of successful export strategies (Denis and Depleteau 1985; Reid 1984). The goal of export promotion programs is to enhance export performance by improving firms' capabilities, resources, and strategies and overall competitiveness (Czinkota 1996; Diamantopoulos *et al.* 1993; Seringhaus and Rosson 1990), which in turn, have all been demonstrated to improve export performance (Aaby and Slater 1989; Cavusgil and Zou 1994; Zou and Stan 1998). Moreover, Lages and Montgomery (2005) emphasized that all the benefits provided by exporting activity encourage public policy makers to implement export assistance programs with the objective of helping firms improve their strategy and ultimately to enhance their performance in the international arena (Lages and Montgomery 2005).

Based on customer satisfaction theory, satisfaction is one of the key global constructs predicting consumer behavior, including future intentions (Ellen and Mark 1999). It involves the customer's emotional slate and feelings regarding their reaction to the perceived difference between performance appraisal and expectation (Hennig-Thurau *et al.* 2002). Satisfaction is measured from the outcome of a comparison

between expected and perceived actual performance of a product or service (Kotler 2003, p. 61). This study measures export performance by first identifying firms' perceptions of the importance of the activities associated with export operations. These activities were identified from export-related research that focused on the problems firms face. Perceived actual performance is measured by the extent of satisfaction firms express with respect to export promotion programs offered by governments that regard these export activities. The larger the perceived gap between the importance of each activity and firms' satisfaction with the government programs related to the activity, the lower the level of satisfaction with the programs in the area. For example, if exporters rate "pricing" as a very important exporting activity, but are rate government pricing programs to be "low" satisfaction, a large perceived gap would existed.

A review of the relevant literature suggest that firm export performance is likely to be highly correlated with the firm's satisfaction with export assistance and the firm's export marketing strategy (Marandu 1995; Shamsuddoha and Ali 2006). This implies that if the firm is dissatisfied with export promotion assistance there will be negative relationships with export performance and export marketing strategy. Thus, this study examines the relationships between firms' lack of satisfaction with export promotion programs and export performance. It analyzes the interface between firms' level of satisfaction with export promotion programs, export marketing strategy, and export performance. As previously explained, satisfaction with export promotion programs is measured via the perceived gap analysis. The larger the perceived gap, the lower the level of satisfaction. Thus, it should be expected that there will be a negative relationship between the perceived gap and the factors to export strategy and performance. It is therefore proposed that:

- H5a: Perceived gap of export promotion programs has a negative impact on the general export strategy to be adopted.
- H5b: Perceived gap of export promotion programs has a negative impact on the marketing mix strategy to be adopted.

As mentioned above, the extent of the perceived gap can be associated with the export success of firms. The greater the perceived gap, the lower the actual performance of government assistance programs relative to the firms' expectations; the export promotion programs are considered useless for the firms' export activities and will reflect negatively in the firms' export performance. The information gained from their perceptions can be used to understand their export behavior and the types of assistance they require. Consequently, the government can support its exporters to overcome their most pressing problems by providing appropriate assistance. Significant differences between the satisfaction with governmental export promotion and export assistance requirements will have an adverse affect on export performance outcomes.

In this study, all responding firms are classified into groups on the basis of the perceived gap value. Each group thus contains firms that indicated similar levels of satisfaction with export promotion programs. It may therefore be hypothesized that export performance will differ between firms that exhibit higher and lower levels of perceived gaps. Specifically, firms with lower perceived gap levels will be more likely to achieve higher levels of export success than firms with higher perceived gap levels. It is predicted that:

- H6: Perceived gap of export promotion programs has a negative impact on subjective performance.
- H7: Firms with lower levels of perceived gap with export promotion programs will achieve higher levels of subjective performance than firms with higher levels.

### **3.3.4 Control Variables**

In this study, firm size and firm exporting experience are regarded as extraneous factors. They will therefore be controlled in order to remove their effects from the analysis of the data.

#### 3.3.4.1 Firm Size

Several empirical studies have reported results that suggest that an organization's size is a key determinant of its propensity to export (Burton and Schlegelmilch 1987; Reid 1984). The larger the firm, the greater the differential size advantage, and this will usually have a positive impact on export activity (Katsikeas and Morgan 1994). Most of researchers found the positive relationship between firm size and export performance (Ali, A. and Swiercz 1991; Calof 1993, 1994; Cavusgil 1993; Christensen *et al.* 1987; Czinkota and Johnston 1983; Kaynak and Kuan 1993; Louter *et al.* 1991) (Culpan 1989). The firm's size is measured by several factors, including number of employees, assets, and sales (Cavusgil *et al.* 1979; Evangelista 1994; Kaynak and Kuan 1993). According to Kaynak and Kuan (1993), as size and export volume increase, there is gradual change in terms of export marketing attitudes, and therefore a strong impact by firm size on export sales. Ali (2004) also found a relationship between firm size and export performance. He measured firm size by total sales and the number of employees, and export performance by export volume, export intensity, and export growth. He found a relationship only between firm size (measured by total sales) and export performance (measured by export volume).

As previous discussed, firm size and firm exporting experience are identified as elements of firm specific characteristics. Number of employees, assets, and sales volume have often been used to measure the variable of size (Cavusgil *et al.* 1979) (Evangelista 1994; Kaynak and Kuan 1993) and as a predictor of various aspects of export behavior (Bilkey and Tesar 1977; Cavusgil and Nevin 1981; Czinkota and Ricks 1981; Reid 1983). The most popular indicators of size are the number of full-time employees and sales volume (Katsikeas 1994). Others have included total assets, equity, and domestic market sales (Agarwal and Ramaswami 1992). This study selected the total number of full-time employees and total assets as indicators of firm size. This selection was grounded in pretest interviews that indicated managers would be more willing to provide employment information and asset information in comparison with alternative size criteria such as sales volume. Furthermore, employment figures and total assets are considered to be more stable because they are not influenced by price level (Sharkey *et al.* 1989).

### **3.3.4.2 Firm Exporting Experience**

Firm's exporting experience in this study is defined as the number of years the firm has been in exporting. The principles of internationalization theory suggest that knowledge obtained through experience from business activities in a specific overseas market is the primary means of reducing foreign market uncertainty. In doing this, it also generates export business opportunities and is consequently a driving force in the process of internationalization (Ali, A. and Swiercz 1991; Johanson and Vahlne 1990).

A firm's ability to overcome the problems encountered in exporting to a specific market depends on the degree of its experiential knowledge about the environmental dynamics shaping that export market (O'Rourke 1985). More specifically, firms with more experience in exporting are likely to have a better understanding of foreign market mechanisms and, ultimately, generate better outcomes compared with those firms characterized by relatively less experience in export markets.

Madsen (1989) found that a firm's exporting experience has a positive effect on export performance and on attitudes towards future exports. Because of its international experience, the experienced firm knows the differences in environmental conditions between its home market and foreign markets and is more likely to adapt its marketing strategy to accommodate the specific needs of exporting market (Cavusgil and Zou 1994). With formal planning and resource commitment, uncertainty is reduced, enabling marketing strategy to be implemented effectively and thereby leading to better performance (Cavusgil and Zou 1994).

## **3.4 Conclusion**

This chapter has developed and presented the hypotheses to be investigated in this study. All the research hypotheses are summarized in Table 3.4. The main objectives in hypotheses development are: 1) to empirically test the structural relationships, 2) to examine those propositions that may have significance, and 3) public policy implications. The next chapter discusses the research



methodology, and it provides the details and operational definitions and measurements of the variables, the instrument development, the research procedures, and the methods to collect the data, and the statistical techniques used to analyze the collected data.

**Table 3.4**  
**Summary of Hypothesized Relationships**

<b>Hypothesis No.</b>	<b>Hypothesized Relationships</b>	<b>Expected Relationship</b>
H1a	Export involvement of firm → export marketing strategy	Positive
H1b	Export involvement of firm → marketing mix strategy	Positive
H2	Export involvement of firm → subjective performance	Positive
H3	Firms' general export marketing strategy → subjective performance	Positive
H4	Firms' export marketing mix strategy → subjective performance	Positive
H5a	Perceived gap of export promotion programs → general export strategy to be adopted	Negative
H5b	Perceived gap of export promotion programs → marketing mix strategy to be adopted	Negative
H6	Perceived gap of export promotion programs → subjective performance	Negative
H7	Firms with lower levels of perceived gaps with export promotion programs will achieve higher levels of subjective performance than firms with higher levels.	Negative