Malaysian Exporters and Non-Exporters Perceptions of the Various Incentives to Export

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Abstract

This study explores the incentives to export that Malaysian entrepreneurs face when engaging in international business. The data gathered was based on a survey of 214 Malaysian manufacturing firms. Statistical analysis was carried out using one-way analysis of variance. With the exception of "Decline in the Value of Currency Relative to Foreign Markets" the results indicate no significant differences in the perceptions of exporters and non-exporters towards the various incentives to export. Results also indicate that thirteen of the twenty export incentives tested in this study were significantly important to Malaysian entrepreneurs. Seven export incentives tested in this study were deemed to be not significant to Malaysian entrepreneurs and they were gain of foreign expertise to improve domestic competitiveness, availability of unused productive capacity, adverse domestic market conditions, provide a hedge against an economic downturn in the domestic market, opportunity to better utilize management talent, ability to easily modify products for foreign markets and close proximity to foreign markets.

1. Introduction

The economic capacity of a country, particularly its industrial and agricultural capabilities, determines the trend that its exports follow. International Trade has always been important for the Malaysian economy. Its importance to the economy has grown stronger over the years. The composition and direction of trade flows have changed significantly, reflecting the dramatic transformation of the primary-producing economy into a rapidly industrialising one. Interestingly, structural changes in the Malaysian economy during the last three decades or so have enhanced the economic openness of the country so much that Malaysia continues to project itself as one of the most open economies in the world. Malaysia's export performance is a major determinant of the state of the economy. Rapid economic growth at the annual average rate of about 7.0 percent since the early 1980s, has much to do with Malaysia's export performance. Imports have also contributed much to the economic development of the country, by providing not only competitively priced consumer and capital goods, but also intermediate inputs for Malaysian manufactures that have rendered Malaysian-manufactured exports competitive in world markets [9].

The composition of Malaysia's exports has changed markedly since the 1970s, with primary products declining in importance relative to manufactures. Export-oriented industrialisation initiatives undertaken in the early 1970s have brought about significant changes in the composition of Malaysia's exports, with manufactures playing an increasingly important role. To the extent that in the late 1990's the share of primary products as a percentage of total exports was approximately 30 percent falling from a high of 80 percent in the early 1970's. Representing a significant change in the composition of Malaysia's exports [9].

Malaysia has mostly enjoyed a favourable trade balance in its balance of payments current account. More often than not, the surplus trade balance was large enough to finance the deficit in the services account and also to produce a sizeable current account surplus. However, in the 1990s Malaysia posted serious trade deficits. The large trade deficits incurred in these years were due to the low export prices of primary commodities, high priced imports as a result of the rapid industrialisation in the country, and the appreciation of major currencies especially the Japanese Yen, the Deutsch mark, the Korean Won and the New Taiwan Dollar. Imports of capital goods associated with foreign investment activities in the country have contributed much to the growing trade deficit. In other words, deficits have been financed largely by foreign capital inflows [9].

Imports have exceeded exports, despite export-oriented industrialisation in these years, because foreign direct investment in manufacturing activities generated imports of capital goods immediately where export output would begin to flow after a certain period of time. The trade balance should reverse itself, with deficit giving way to surplus once the export-oriented investment projects come on-stream. However, the evidence is inconclusive.

The relationship between imports and exports in recent times has been problematic for Malaysia. Malaysia's reliance on foreign direct investment to make up for the balance of trade deficit shows how fragile this relationship can be. There is a need for an action plan to correct the situation, especially when there are no guarantees that foreign direct investment in a receding global economy will be able to cover the deficit in the trade balance in the future. As such, the action plan needs to include what causes or prevents Malaysian firms from exporting i.e. the various incentives to export Malaysian firms confront when entering the export market. This knowledge becomes of critical importance if Malaysia is going to start correcting its trade deficit and that is what has driven the need for this study.

2. Literature Review

In general, the expansion of a nation's exports has positive effects on the growth of the economy as a whole as well as on individual firms [8]. Exporting is of vital economic importance to trading nations and their firms. Exports boost profitability, improve capacity utilization, provide employment, and improve trade balances [3]. According to [13] the growing internationalization of the world economy and the widespread opinion that increased exports benefit society has stimulated research in this area. In the U.S., the growing trade deficit is the most immediate factor behind the interest in this topic. A common objective in most countries today is to find ways to increase exports. This can be achieved either by encouraging exporting firms to export more or by inducing non-exporters to begin exporting. In 1998, the exports-GNP ratio for Malaysia was 84.3 percent indicating how much the Malaysian economy relies on its exports [9]. "In this globalized world, industries do not survive if they are not export oriented" [23].

"One of the most important research questions in the international business literature is why some firms export and others do not?" [20]. An explanation offered by previous research is that non-exporters perceive considerable barriers to exporting [1] [25] [21] [24] [7] [16]. Thus, before non-exporters can export, a "threshold fear" must be overcome [11]. However, the findings are inconclusive. [12] found no difference in barrier perceptions between exporters and non-exporters whereas [5] findings indicate that exporters perceive more export barriers than do non-exporters. As such, it is important to ascertain what incentives non-exporters need to become export active and what incentives exporters need to continue to export and to be successful in doing so. This issue is the impetus behind this current study.

Close proximity to foreign markets, diminishing growth opportunities in the home market, expectation of economies resulting from added volume of trade, availability of unused productive capacity, managerial beliefs about the value of exporting, improvement in the growth potential of the product market and the chance to diversify into new markets are the major incentives for firms to engage in international business [22].

According to [17], the main reason for firms to engage in international business is to expand their business activities because their domestic markets are relatively saturated and international expansion might promote increased sales revenues over time. As a result of competition that emerges with trade liberalization, many firms (both exporters and non-exporters) consider exporting an easier option than continuing in the intensely competitive domestic market [10].

[6] and [7] found that other motivators which have been found to be correlated with initial export involvement are receipt of unsolicited foreign orders, aspirations for higher profit, sales growth, the desire to spread research and development costs across a wider volume, the need to make use of excess manufacturing capacity and the desire to achieve stability through diversification.

According to [18] international expansion may allow large firms to spread overhead costs over a large volume of output. Effectively, international business may allow the firm to fully exploit available economies of scale. [18] also argued that the owners of a firm would benefit if that firm spreads its sources of income over a set of activities that are diversified internationally. The idea is that the firm's income stream will be less volatile by conducting business in a variety of countries rather than in a single country.

Exports cannot flourish on individual initiative alone. Efforts made through organizations pursuing combined interests could lead to more efficient long-term outcomes. Creating an export board, formed mainly by private sector representatives, could facilitate and encourage export activities through the promotion of an overall development and marketing plan for Malaysian goods. An effective export board requires close collaboration of professional associations, chambers of commerce, and public institutions.

To better face the challenges of the global village, Malaysian entrepreneurs need to get ready and target export markets and adopt a global vision of business development. Malaysian entrepreneurs should be aware of the limits of protection and the necessity to innovate and promote quality. This can be attained by developing an outward-oriented strategic vision and a so-called, export culture.

Effort is needed to help promote and advertise Malaysian products and services in foreign markets. Some of the proposed solutions include the use of trade delegations and participations in fairs and exhibitions. Furthermore, the presence of a large expatriate community abroad and their entrepreneurial spirit is an advantage to benefit from. A collective promotion strategy, based on partnerships and formal channels, would present increased chances to realize the complete potential of the Malaysian network.

As such, the research questions that drive this study include, firstly, what are the key incentives to export as perceived by the Malaysian manufacturers? Secondly, do exporters and non-exporters differ in their attitudes towards the different incentives to exporting? Thirdly, does the share of exports over total sales affect the attitudes towards the different incentives to exporting?

3. Methodology

The study was based on an empirical investigation of the incentives to export Malaysian firms face when engaging in international business. The sample of firms came from a wide cross section of industries including, food and beverage, tobacco, leather, wood, paper, rubber, plastics, metal-working, machinery, electronics, textiles, petroleum, marble, chemical and pharmaceuticals. The sampling frame was provided by the Federation of Malaysian Manufacturers (FMM). In order to obtain valid and reliable measures of the variables, previously validated scales were used for all of the constructs in this study. The questionnaire was developed and pre-tested using a small sample of exporters with the final instrument mailed to the sample. All items measuring incentives to export were measured via five-point bipolar scales with scale poles ranging from strongly disagree (1) to strongly agree (5).

The instrument contained items identified by the literature as measuring incentives to export such as a reduction of tariffs in target countries, attractive export incentives provided by the home country government, presence of export-minded management, expectation of economies of scale resulting from added volume of trade, favourable sales and profit opportunities in foreign markets, the chance to diversify into new markets and the receipt of voluntary orders from foreign buyers [22]. Other incentives to export included in the research instrument were the gain of foreign expertise to improve domestic competitiveness, availability of profitable ways to ship to foreign markets, availability of unused productive capacity, adverse domestic market conditions, provide a hedge against an economic downturn in the domestic market, opportunity to better utilise management talent, eased product regulations in target countries, opportunity to reduce inventories, ability to easily modify products for foreign markets, close proximity to foreign markets, moves by domestic competitors to export, decline in the value of currency relative to foreign markets and entry of foreign competitors into the domestic market [22].

After the pilot test the questionnaire was mailed to a purposeful sample of 214 manufacturing firms, yielding 166 useable questionnaires being returned accounting for an effective response rate of 77.6 percent and considered to be more than adequate [14].

4. Data Analysis

Prior to analysing the data a description of the sample is provided. The sample consisted of 166 respondents of which 133 were males (80.1% of the sample) and 33 were females (19.9% of the sample). This was as expected given it reflects the results of a recent survey conducted by the Federation of Malaysian Manufacturers (FMM).

In relation to the respondent's age, 12.6% of the respondents were 25 years of age and under, 28.3% were between 26 and 35 years of age, 38.0% were between 36 and 45 years of age and 21.1% were 46 years of age and above. Regarding the firms in the sample, average annual increase in sales for the past three years saw 63.8% of firms experience a net increase in sales of 10% or greater with 22.3% experiencing an average annual sales increase of between 5% and 10%. Only 13.9% of the sample experienced an annual increase in sales of between 0% and 4% or a net decrease in sales. This meant that 86.1% of the firms in the sample experienced marked increases in net sales.

As far as export activity was concerned approximately 40.4% of firms were engaged in export with 26.9% of these firms being involved in international business for the past 7 years or more. However, only 13.8% of these companies export to more than 5 countries. Thereby, indicating a lack of experience in international business by most of the firms in the sample. Furthermore, 24.1% of the exporters in the sample exported to countries within North and South East Asia. This was to be expected, since intra-regional trade for many countries in South East Asia has been on the rise [15].

A check for non-response bias was also conducted. An 'extrapolation procedure' technique was used to assess non-response bias. This assumes that the groupings of actual respondents by an identified criterion are similar to the 'theoretical' non-respondents [2]. Frequencies and independent *t*-tests were used to determine whether significant differences existed between the sample and the target population based on industry classification. No significant difference was identified between the sample and the target population for this classification variable. Therefore, as there appears to be no significant difference between respondents and non-respondents then the sample can be considered sufficient to draw conclusions about incentives to export for Malaysian firms.

A reliability analysis was conducted to evaluate the multi-item incentive scales. Cronbach's alpha was used for the reliability analysis. The results of the analysis revealed a Cronbach's alpha of 0.87 for the multi-item incentive scale indicating satisfactory internal reliability.

To test the Malaysian decision-makers' attitudes toward the different incentives to export, a one-way analysis of variance was conducted (see Table 1). From Table 1 it was concluded that Malaysian decision-makers had neutral feelings towards the following incentives to export: gain of foreign expertise to improve domestic competitiveness, availability of unused productive capacity, adverse domestic market conditions, provide a hedge against an economic downturn in the domestic market, opportunity to better utilize management talent, ability to easily modify products for foreign markets and close proximity to foreign markets. In the abovementioned incentives to export, the p-values were greater than α. Hence, concerning these three incentives to export, the null hypothesis could not be rejected because the true state was not significantly different than that assumed by H_0.

Also from Table 1 it was concluded that Malaysian decision-makers had significant feelings towards the following incentives to export: reduction of tariffs in target countries, attractive export incentives provided by the home country government, presence of export minded management, expectation of economies of scale resulting from added volume of trade, favourable sales and profit opportunities in foreign markets, chance to diversify into new markets, receipt of voluntary orders from foreign buyers, availability of profitable ways to ship to foreign markets, eased product regulations in target countries, opportunity to reduce inventories, moves by domestic competitors to export, decline in the value of currency relative to foreign markets and entry of foreign competitors into the domestic market.

Table 1 - Decision-Makers' Attitudes toward Different Incentives to Exporting (α=0.05)

Incentives to Exporting	p-value	Sig. at 0.05
Reduction of tariffs in target countries.	0.024	Yes
Attractive export incentives provided by the home country government.	0.000	Yes
Presence of export-minded management.	0.040	Yes
Expectation of economies of scale resulting from added volume of trade.	0.025	Yes
Favourable sales and profit opportunities in foreign markets.	0.049	Yes
Chance to diversify into new markets.	0.041	Yes
Receipt of voluntary orders from foreign buyers.	0.007	Yes
Gain of foreign expertise to improve domestic competitiveness.	0.185	No
Availability of profitable ways to ship to foreign markets.	0.035	Yes
Availability of unused productive capacity.	0.075	No
Adverse domestic market conditions.	0.530	No
Provide a hedge against an economic downturn in the domestic market.	0.062	No
Opportunity to better utilize management talent.	0.061	No
Eased product regulations in target countries.	0.002	Yes
Opportunity to reduce inventories.	0.029	Yes
Ability to easily modify products for foreign markets.	0.680	No
Close proximity to foreign markets.	0.120	No
Moves by domestic competitors to export.	0.042	Yes
Decline in the value of currency relative to foreign markets.	0.045	Yes
Entry of foreign competitors into the domestic market.	0.002	Yes

As for the reduction of tariffs in target countries, the null hypothesis was rejected because the p-value (0.024) was less than α (0.05). Since the mean of the ratings attributed by our sample respondents to this incentive (3.85) was significantly higher than the scale mean (3), this means that Malaysian decision-makers perceive reduction of tariffs in target countries as a significantly important incentive to exporting. Using the same logic it was concluded that Malaysian decision makers perceive the remaining incentives to exporting as significantly important incentives.

Do Malaysian exporters and non-exporters perceive the same incentives to export to be important? In other words, does the share of exports over total sales affect the attitudes towards the importance of the different incentives to exporting? To answer this question, twenty one-way ANOVA tests were conducted to analyse the effect of share of exports over total sales (independent variable) on the twenty incentives to exporting (dependent variables). The objective being to determine whether the attitudes towards these 20 incentives to export differ according to the share of exports over total sales. The results are reported in Table 2. From Table 2, it is evident that the p-values are greater than α (0.05) in 19 of the 20 items. Thus, it can be concluded that exporters and non-exporters largely agree in their views of these incentives to exporting.

Table 2 - Effect of "Share of Exports over Total Sales" on Attitudes towards Incentives

Incentives to Exporting	p-value	Sig. at 0.05
Reduction of tariffs in target countries.	0.457	No
Attractive export incentives provided by the home country government.	0.295	No
Presence of export-minded management.	0.160	No
Expectation of economies of scale resulting from added volume of trade.	0.333	No
Favourable sales and profit opportunities in foreign markets.	0.069	No
Chance to diversify into new markets.	0.503	No
Receipt of voluntary orders from foreign buyers.	0.641	No
Gain of foreign expertise to improve domestic competitiveness.	0.515	No
Availability of profitable ways to ship to foreign markets.	0.400	No
Availability of unused productive capacity.	0.092	No
Adverse domestic market conditions.	0.338	No
Provide a hedge against an economic	0.651	No

downturn in the domestic market.		
Opportunity to better utilize management talent.	0.727	No
Eased product regulations in target countries.	0.553	No
Opportunity to reduce inventories.	0.207	No
Ability to easily modify products for foreign markets.	0.209	No
Close proximity to foreign markets.	0.101	No
Moves by domestic competitors to export.	0.428	No
Decline in value of currency relative to foreign markets.	0.017	Yes
Entry of foreign competitors into the domestic market.	0.493	No

After examining Table 2, it is evident that share of exports over total sales does affect the attitudes towards one export incentive that incentive being "Decline in the Value of Currency Relative to Foreign Markets". Thus, it is concluded that exporters and non-exporters do not agree in their views of this export incentive.

5. Discussion, Summary and Conclusions

This study is concerned with an empirical investigation that explores the incentives to export that Malaysian entrepreneurs face when engaging in international business. The data gathered was based on a survey of 166 Malaysian manufacturing firms. Statistical analysis was carried out using one-way ANOVA. Statistical analysis of the gathered data has revealed several useful insights. First, thirteen of the twenty export incentives tested in this study were identified as being significantly important to Malaysian entrepreneurs when deciding to export or not to export. Seven export incentives tested in this study were deemed to be not significant to Malaysian entrepreneurs when deciding to export or not to export and those export incentives were identified as gain of foreign expertise to improve domestic competitiveness, availability of unused productive capacity, adverse domestic market conditions, provide a hedge against an economic downturn in the domestic market, opportunity to better utilize management talent, ability to easily modify products for foreign markets and close proximity to foreign markets.

The thirteen export incentives identified as being significantly important to Malaysian entrepreneurs in this study included reduction of tariffs in target countries, attractive export incentives provided by the home country government, presence of export minded management, expectation of economies of scale resulting from added volume of trade, favourable sales and profit opportunities in foreign markets, chance to diversify into new markets, receipt of voluntary orders from foreign buyers, availability of profitable ways to ship to foreign markets, eased product regulations in target countries, opportunity to reduce inventories, moves by domestic competitors to export, decline in the value of currency relative to foreign markets and entry of foreign competitors into the domestic market.

This study's findings provide support for the findings of [6] and colleagues who found that the chance to diversify into new markets was an incentive for the firm to engage in international business. Furthermore, adverse domestic market conditions is an incentive for firms to engage in international business. This finding supports the finding of [4], when he found that the reason for the firm to engage in international business was because of adverse domestic market conditions. [26] contended that the international business attitudes of the top management of a firm may determine the degree of the firm's international business orientation. This view received support from this study's findings, whereby, managerial beliefs about the value of exporting was a significant incentive for the firms in the sample to engage in international business. According to [19], the main reason cited by firms for expanding their international business activities is that their domestic markets are relatively saturated and international expansion might, therefore, promote increased sales revenues over time. [6] also reported that declining domestic market shares is a strong motivator for the initiation of export marketing activities. These findings were contrary to the current study's findings where adverse market conditions were not a significant incentive for the firms in the sample to engage in international business.

[4] found that firms engage in international business because it could make a major contribution to the firm's sales and profitability. [4] finding is similar to the findings of this study, whereby favourable sales and profit opportunities in foreign markets was a significant incentive for the firms in the sample to engage in international business.

[6] and colleagues found that the receipt of unsolicited orders from foreign buyers was a significant incentive for the firm to engage in international business. This study's findings provide support for [6] and colleagues findings whereby the receipt of unsolicited orders from foreign buyers was a significant incentive for the firms in the sample to engage in international business.

Finally, do exporters and non-exporters perceive the same incentives to export to be important? From the findings presented in this study it was concluded that exporters and non-exporters largely agree in their views of the various incentives to exporting that were tested here. However, it was evident that exporters and non-exporters had different attitudes towards one export incentive that incentive being "Decline in the Value of Currency Relative to Foreign Markets". Thus, it was concluded that exporters and non-exporters do not agree in their views of this export incentive. Furthermore, from the multiple comparisons test conducted on this export incentive for those who export 11% to 40% of their total sales and those who export 41% or more of their total sales the attitudes towards this export incentive are significantly different from each other. Those who export between 11% and 40% of their total sales perceive "Decline in the Value of Currency Relative to Foreign Markets" as a more important incentive than those who export 41% or more of their total sales. This is not surprising given that firms that export a small percentage of their output to foreign markets will not be able to take advantage of economies of scale and a decline in the value of currency relative to foreign markets is likely to have a greater perceived impact on their financial performance than those firms that export a larger percentage of their output to foreign markets because they are more likely to be able take advantage of economies of scale and can spread their exchange risk across a number of different country markets. Furthermore, firms that export a smaller percentage of their output to foreign markets are likely to export to a smaller number of markets than firms that export a larger percentage of their output. Again, those firms that export a larger percentage of their output are able to spread their exchange risk across a number of different country markets. As such, this export incentive is not as important to those firms that export a larger percentage of their output to foreign markets as it is to those firms that export a smaller amount of their output to a smaller number of country markets.

In spite of the important findings, the study still has a number of limitations particularly related to sampling procedures. Convenience sampling was the sampling technique used in this project. Although the abovementioned technique has many advantages, it also has serious limitations. Many sources of selection bias are present, including respondent self-selection. Moreover, convenience samples are not representative of any definable population. Therefore, it would not be theoretically meaningful for us to generalize to any population from a convenience sample, and convenience samples are not suitable for marketing research projects involving population inferences.

Future research should attempt to employ a more sophisticated definition of export. While the relatively basic measure of export employed in this study served to highlight some important differences between exporting and non-exporting firms, more refined and multi-dimensional export measures could offer interesting insights. Although in this study we established that certain variables are positively related to each other what we still do not know is which variable is an antecedent of the other. The investigation of this issue is put forward as an agenda for future research. There is a need to empirically investigate which variable causes the other in order to properly guide Malaysian exporters and non-exporters. Finally, the measures used in this study should be replicated elsewhere to ensure that the measures used in this study have cross-national reliability and validity and that the findings here are not just confined to Malaysia for country-specific reasons.

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