

## **Impact of environmental factors as moderator on export marketing performance in wooden furniture industry**

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### **Abstract**

*There has been a significant increased in the quantity and quality of international and export marketing research with respect to effective solutions towards export performance. However, an investigation on the impact of marketing strategy and export performance in a single industry is lacking. In addition, the influence of environmental factors to moderate the relationship between export marketing strategy and export performance has received little agreement. This research aims to investigate the relationship between export marketing strategy and export performance in Malaysian wooden furniture industry, as well as the influence of moderating role of environmental factors on the relationship between export marketing strategy and export performance. Personal interview, mail and phone interview methods were used to measure export marketing strategy, newly developed environmental factor variables which consists of global economic situation and certification, as well as export performance. The findings showed that there were no direct relationship between export marketing strategy and export performance. Uniquely, the moderating effect of certification appeared to moderate a few relationships between product and promotion adaptation, distribution strategy, design strategy and target market specification on export performance. Managerial implications and suggestions for future research were also discussed.*

### **Introduction**

The importance of marketing strategy to achieve organizational profits has been proven in determining the company performance effectively. Many industries have formulated aggressive strategies by implementing creative strategies on their products or services in order to increase organizational profits and sustainable competitive advantage. Global competition has put great pressure on export-based companies to set new and effective strategies in order to compete in the world market. However, some of the strategies implemented are not as successful as expected. Therefore, the need to focus on export marketing strategy on export performance in a single industry would give better understanding, whilst adding new insights into international marketing literature.

Besides expanding business operations into global market, firms also need to consider external factors that might affect their business internationally. These external or environmental factors cannot be controlled by the firms. Therefore, the impact of environmental factors to export-

based companies to enter export ventures would give significant influence to their performance.

This study attempts to investigate export performance in the Malaysian wooden furniture industry by examining the impact of export marketing strategy and the moderating effect of environmental factors on the relationship between export marketing strategy and export performance. The study contributes to add new insight of the moderating factors influenced the export marketing performance in Malaysia furniture industry.

### **Furniture industry in Malaysia**

The Malaysian furniture industry has been on a steady upsurge since 1998. After experiencing a 14% drop that year, furniture production fuelled by export demands reached an estimated USD1,828 million in 2000. There are an estimated 750 furniture manufacturing and export companies in Malaysia, with another 1,500 smaller concerns playing a supporting role. Under the government's second Master Plan (1996-2005), the Malaysian furniture industry has been identified as a "target industry" and is now one of the new growth sectors of the economy. In 2000, the Malaysian Industrial Development Authority gave the go ahead to a total of 34 furniture and fixtures investment projects and 21 wood investment projects. Collectively, these investments are worth RM356.5 million.

A study by Bojei *et al.*, (2002) on global marketing strategies in the Malaysian wooden furniture industry, the marketing strategies used by the wooden furniture companies, either original equipment manufacturing (OEM), own design manufacturing (ODM) or own brand name (OBM), the most important factors influencing the success of those strategies were firm's primary characteristics, decision maker's expectation of exporting and global marketing strategy.

### **Literature review**

#### ***Export Marketing Strategy***

In the international marketing research, there were several dimensions used by the researchers to indicate marketing strategy. Previous researchers acknowledged firm strategy (Aaby and Slater, 1989), export marketing strategy (Julian, 2003; Akyol and Akehurst, 2003; Zou and Stan, 1998; Cavusgil and Zou, 1994; Koh, 1991), export strategy (Aulakh *et al.*, 2000; Chetty and Hamilton, 1993), business strategy (Baldauf *et al.*, 2000) or strategy (Cicic *et al.*, 2002; Thirkell and Dau, 1998). However, all of these dimensions are based on marketing mix (product, price, promotion, distribution) and some researchers add few variables in order to make it more meaningful dimensions in their studies.

Export strategy was found as one of the most frequently used variable previously (Chetty and Hamilton, 1993). Other studies in export marketing area have focused on the relationship between export performance and firm strategies toward export activities (O'Cass and Julian, 2003; Julian, 2003; Akyol and Akehurst, 2003, Cicic *et al.*, 2002; Steward and McAucley, 2000; Aulakh *et al.*, 2000). In the international marketing literature, there were a number of empirical studies emphasizing on marketing strategy in export marketing with several constructive results. Studies done by Thirkell and Dau (1998), Cavusgil and Zou (1994), Koh (1991), and Madsen (1989) suggested that export marketing strategy has significant influence on export performance.

Since export marketing strategy has been considered as one of the key determinants on export performance (Cavusgil and Zou, 1994), not all of the marketing strategy elements will affect the export performance simultaneously. Study by Koh (1991) on the relationships among organizational characteristics, marketing strategy and export performance has found that only export pricing, direct buyer, and channel strategies of marketing strategy variations have effects on export performance. However, adapting marketing mix variables to the specific needs of developed country markets would enhance export marketing performance (Aulakh et al., 2000). In contrast, a study by Julian (2003) to identify the key factors influencing export marketing performance found that export marketing strategy has no effect on the Thai firm's export marketing performance.

Shoham and Kropp (1998) investigated international performance in the United States has found a negative impact between marketing mix on export performance except channel support. Product adaptation strategy (product design, quality, auxiliary services, breadth, and depth of lines) improve export performance (Shoham, 1999) and little or no adaptation of product in foreign markets will contribute to the failure of export ventures (Ogunmokun and Li, 1999). Zou and Stan (1998) suggested in their meta analysis approach of 50 studies that product adaptation and strength, promotion intensity, channel relationship and price adaptation were the key determinants of export marketing strategy. Based on past literature, hence:

H1: There is a significant relationship between export marketing strategy and export performance.

### ***Environmental factors***

The emergence of environmental concern as one of the critical factors in strategic business planning indicates the growth of environmental movement in the market place (Menon *et al.*, 1999). Both internal firm processes and external market and government policy factors affect firm and industry competitiveness (Hoff *et al.*, 1997).

A study by Kotha and Nair (1995) on strategy and environment as determinants of performance in the Japanese machine tool industry indicated that profitability and growth of performance were influenced significantly by the environment. Besides that, only environmental variables were related with firm growth of firm performance. Recent study by O'Cass and Julian (2003) showed that environmental characteristics have significant impact on overall export marketing performance.

In contrast, Baldauf *et al.*, (2000) found that the effect of the environmental dimensions on the organizations was viewed relatively unimportant by the managers in their study. Additionally, perceived environmental effects did not appear to have a strong impact on export performance. However, export sales have significant effect on the importance placed on the political environment. Furthermore, lower perceived influences of political environment were associated with the higher export sales which indicated negative relationship. On the other hand, Abdul-Aziz *et al.* (2000) found that certification especially ISO certification will ensure the promotion adaptation into higher standard. Thus, the proposed hypotheses are:

H2a: Global economic situation moderates the relationship between export marketing strategy and export performance.

H2b: Certification moderates the relationship between export marketing strategy and export performance.

Figure 1 indicates the research framework of the impact of export marketing strategy on export performance in the Malaysian wooden furniture industry.

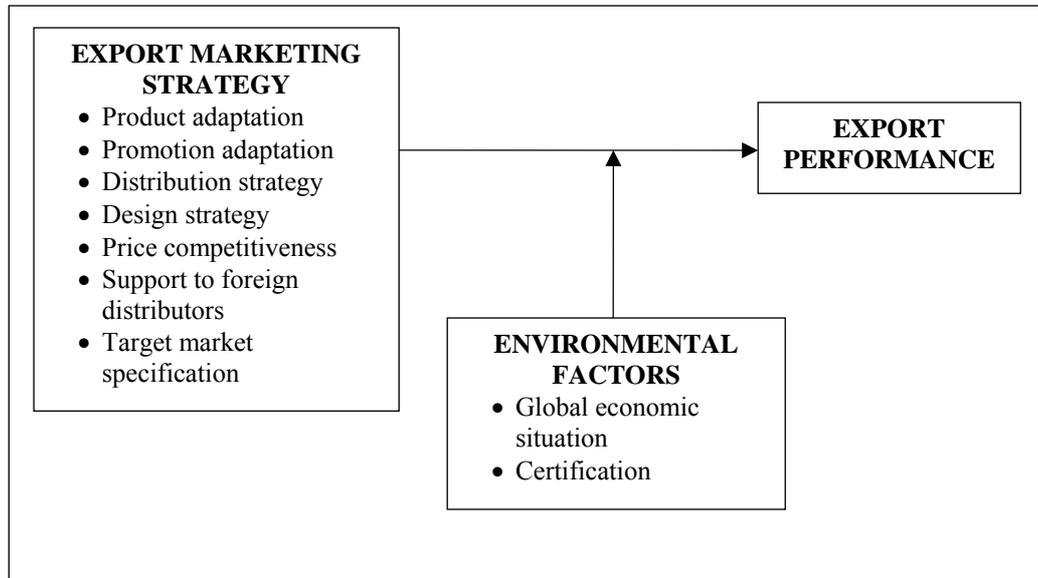


Figure 1: Research framework

## Methodology

A questionnaire was developed and tested in order to ensure the relevancy, clarity and applicability to the furniture industry. A total of 215 respondents consisted of wooden furniture firms in Malaysia were selected as the sample for this study. From 215 export-oriented furniture firms, only 67 participated with 31.16% response rate but only 64 responses were usable to be analyzed for the study. Face to face, mail and phone interview methods were used to measure export marketing strategy (Cavusgil and Zou, 1994), environmental factors, and export performance (Cavusgil and Zou, 1994; and Julian, 2003). Unit analysis for this study was the export oriented furniture firms.

*Export marketing strategy* was measured based on Cavusgil and Zou (1994) and Julian (2003), which comprised of seventeen items including newly developed item for design strategy. This instrument consist of product adaptation ( $\alpha=0.56$ ), promotion adaptation ( $\alpha=0.56$ ), support to foreign distributor/subsidiary ( $\alpha=0.83$ ), price competitiveness, distribution strategy ( $\alpha=0.54$ ), design strategy ( $\alpha=0.66$ ) and target market specification ( $\alpha=0.71$ ). This instrument was measured using six-point Likert scales ranging from 1 (none/vague/modest/few/not competitive) to 6 (substantial/clear/high/ many/considerable/extremely competitive).

*Environmental factors* were newly developed for the purpose of this study by using four items. It consists of global economic situation (2 items) and certification (2 items). The six-point Likert scales were used ranging from 1 (none) to 6 (substantial). Reliability test was conducted and resulted in 0.88 cronbach's alpha for global economic situation and 0.63 for certification measurements.

*Export performance* measurement was adopted by using Cavusgil and Zou (1994) and Julian (2003) composite scale on strategic objective. Respondents were asked to indicate the relative importance attached to each objective by allocating a constant sum (100 points) to the individual objectives proportional to their importance. Respondents also were asked to indicate whether these objectives were met. The extent to which the initial strategic objectives were achieved was then computed as the weighted sum of the importance of initial strategic objectives. Then, perceived success of the export venture on a 10-point Likert scale ranging from 1 (unsuccessful) to 10 (successful) was determined. Annual export sales growth rates over the five year period of the venture and whether the venture is profitable in each of the five years were asked to the potential respondents. Average annual sales growth rates as well as the overall profitability over the five years of the venture were computed to capture the measure of export marketing performance. For measuring export performance, these four indicators then were summed into a composite scale (Cavusgil and Zou, 1994; Julian, 2003).

The statistical analysis used in this study consists of frequency analysis to determine the company profile. Correlation and multiple regression analyses were used to examine the relationship between the export performance and the factors of export marketing strategy and the variables of environmental factors in the Malaysian wooden furniture industry. Finally, intercooled stata was used to determine whether the moderating variables are the major contribution to the model.

## **Research results**

### ***Respondent profile***

This study has indicated that 26 (40.6%) furniture manufacturers have less than 100 of total number of employees, 18 (28.1%) firms have between 100 to 300 employees, 11 (17.2%) firms have between 300 to 500 employees, 5 (7.8%) and 4 (6.3%) for the firms who have the total employees between 500 to 700 and 700 to 1000 employees respectively. About 50% (32) of the respondents were experienced in international market around 5 to 10 years, 28.1% (18) have experienced within 11 to 24 years in international market, 11 companies (17.2%) experienced less than 5 years, and 3.1% (2) and 1.6% (1) for those companies who have experienced within 25 to 39 years and more than 40 years respectively. More than half or 35 companies (54.7%) have served 6 to 24 countries, 31.3% or 20 companies served between 1 to 5 countries in export market. Five companies or 7.8% have served between 40 to 59 countries, two companies (3.1%) have served between 25 to 39 countries, and finally, only two companies served more than 60 countries.

### **Correlation Analyses**

Table 1, shows the correlations between the dependent of export performance (EXPERF), independent of product adaptation (PDTADAP), promotion adaptation (PROMO), price competitiveness (PRICE), target market specification (TGTMTKT), support to foreign distributors (SUPPDIST), distribution strategy (DISTSTRA), design strategy (DESIGN) and the moderating effect of environmental factors (EF).

The result indicated that only product adaptation and distribution strategy were correlated with export performance at 0.05 significant level. Promotion adaptation, target market specification and distribution strategy were found correlated with product adaptation at 0.01 significant level. Besides that, target market specification and distribution strategy were correlated with promotion adaptation at 0.01 significant level while design strategy correlates with promotion

adaptation at 0.05 significant level. Finally, target market specification was correlated with distribution strategy at 0.01 significant level and at 0.05 significant level with environmental factors.

**Table 1: Correlation analyses between export marketing strategy, environmental factors and export performance**

VARIABLES	MEAN	sd	1	2	3	4	5	6	7	8
EXPERF	15.4813	3.0500	1.00							
PDTADAP	14.0625	2.382998	0.257*	1.00						
PROMO	14.2500	2.09307	0.187	0.780**	1.00					
PRICE	4.5781	0.97272	-0.039	0.238	0.115	1.00				
TGTMKT	4.9063	1.06486	0.208	0.428**	0.459**	0.237	1.00			
SUPPDIST	6.8438	4.49768	0.132	0.004	0.11	0.199	-0.023	1.00		
DISTSTRA	9.3125	2.29475	0.262*	0.391**	0.416**	0.124	0.636**	0.216	1.00	
DESIGN	13.4375	2.77675	0.061	0.137	0.284*	0.087	0.213	0.095	0.319*	1.00
EF	23.8438	3.77636	-0.173	0.140	0.013	0.194	0.261*	0.055	0.145	0.144

\*Correlation is significant at the 0.05 level (2-tailed)

\*\*Correlation is significant at the 0.01 level (2-tailed)

### The impact of export marketing strategy on export performance

As can be seen from Table 2, multiple regression analyses is used to see whether there are relationships between product adaptation, promotion adaptation, price competitiveness, distribution strategy, support to foreign distributors, target market specification and design strategy on export performance in Malaysian wooden furniture industry. The results have shown that there is no statistically significant relationship between export marketing strategy and export performance. Thus, proposition 1 was rejected.

**Table 2: Regression analyses between export marketing strategy and export performance**

Parameter	B	Std. Error	t	p-value
Constant	11.711	3.681	3.182	0.002
Product adaptation	1.145	0.780	1.467	0.148
Promotion adaptation	-0.337	0.824	-0.409	0.684
Distribution strategy	-0.138	0.663	-0.209	0.835
Design strategy	-0.176	0.667	-0.264	0.793
Price competitiveness	-0.497	0.420	-1.182	0.242
Support to foreign distributors	0.321	0.274	1.169	0.248
Target market specification	0.753	1.527	0.493	0.624
F	1.326	(p-value = 0.255)		
R <sup>2</sup>	0.142			

### The moderating effect of environmental factors

From Table 3, it shows that global economic situation has not found to moderate the relationship between export marketing strategies on export performance. Furniture manufacturers are not concern on the global economic situation due to their confident level of furniture products in terms of quality and design are very competitive in the world market. Thus, proposition 2a was rejected.

**Table 3: Regression analyses between export marketing strategy and the moderating effect of global economic situation on export performance**

<b>Parameter</b>	<b>B</b>	<b>Std. Error</b>	<b>t</b>	<b>p-value</b>
Constant	10.465	3.706	2.824	0.007
Product adaptation	-4.325	3.907	-1.107	0.274
Promotion adaptation	5.154	4.348	1.186	0.242
Distribution strategy	-3.123	3.115	-1.002	0.321
Design strategy	2.760	3.238	0.852	0.398
Price competitiveness	-4.903	3.730	-1.314	0.195
Support to foreign distributors	0.749	1.208	0.620	0.538
Target market specification	8.797	8.443	1.042	0.303
Product adaptation* Global economic situation	1.203	0.780	1.542	0.129
Promotion adaptation* Global economic situation	-1.168	0.840	-1.391	0.170
Distribution strategy* Global economic situation	0.589	0.622	0.946	0.349
Design strategy* Global economic situation	-0.559	0.646	-0.866	0.391
Price competitiveness* Global economic situation	0.807	0.699	1.155	0.253
Support to foreign distributors* Global economic situation	-0.086	0.243	-0.352	0.726
Target market specification* Global economic situation	-1.555	1.612	-0.965	0.339
F	1.723	(p-value = 0.081)		
R <sup>2</sup>	0.330			

Table 4 shows contradicting result from Table 3. It shows that certification has been found to moderate the positive relationships between product adaptation ( $p=0.061$ ), distribution strategy ( $p=0.003$ ) and design strategy ( $p=0.003$ ), while certification has moderate negative relationships between promotion adaptation ( $p=0.016$ ) and target market specification ( $p=0.003$ ) on export performance in Malaysian furniture industry. However, the relationships between price competitiveness and support to foreign distributors were not moderated by certification. Thus, it provides partial support to proposition 2b.

**Table 4: Regression analyses between export marketing strategy and the moderating effect of certification on export performance**

Parameter	B	Std. Error	t	p-value
Constant	12.205	3.593	3.397	0.001
Product adaptation	-5.161	3.456	-1.493	0.142
Promotion adaptation	7.236	3.494	2.071	0.044**
Distribution strategy	-8.424	2.760	-3.052	0.004**
Design strategy	-7.314	2.530	-2.891	0.006**
Price competitiveness	2.293	1.807	1.269	0.211
Support to foreign distributors	2.003	1.165	1.719	0.092*
Target market specification	19.002	6.036	3.148	0.003**
Product adaptation* Certification	1.426	0.743	1.920	0.061*
Promotion adaptation* Certification	-1.803	0.724	-2.492	0.016**
Distribution strategy* Certification	1.949	0.620	3.141	0.003**
Design strategy* Certification	1.566	0.510	3.071	0.003**
Price competitiveness* Certification	-0.536	0.377	-1.423	0.161
Support to foreign distributors* Certification	-0.361	0.234	-1.539	0.130
Target market specification* Certification	-4.243	1.341	-3.165	0.003**
F	2.890	(p-value = 0.003)		
R <sup>2</sup>	0.452	**=0.05, *=0.10		

This result has shown that the moderating role of certification gives a major contribution to the model of this study by using additional F-test formula:

$$F = \frac{(R_{new}^2 - R_{old}^2)/df}{(1 - R_{new}^2)/df}$$

$$F = \frac{(R_{new}^2 - R_{old}^2)/number\ of\ new\ regressor}{(1 - R_{new}^2)/n - number\ of\ parameter\ in\ the\ new\ model}$$

Since in the first model the R-squared value is 0.142 (n=64) and in the second model after including the entire moderator the R-square increase to 0.404 (n=64). Using the above formula, the additional F-value for moderator effect can be calculated as below;

$$F = \frac{(0.452 - 0.142)/7}{(1 - 0.452)/64 - 14}$$

$$F = 4.04 \text{ (Additional F-value for moderating variable)}$$

The critical value for F-test at 5% (1%) alpha level with 7 and 50 for numerator and denominator degree of freedom is 2.2 (3.02)

$$F_{0.05;7,50} = 2.2$$

$$F_{0.01;7,50} = 3.02$$

Since the Additional F-value is *greater* than the F-critical value, then enough evidence to say that the contributions of certification as a moderating variable in the model is significant.

### **Discussion and implications**

The objective of the research is to examine the impact of export marketing strategy and the moderating effect of environmental factors on export performance in Malaysian wooden furniture industry. This study found that all export marketing strategies have no direct relationship with export performance in Malaysian wooden furniture industry. Julian (2003) has supported this result which suggested that export marketing strategy has no effect on the Thai firm's export marketing performance. Majority of Malaysian furniture manufacturers are using the same strategy in their marketing activities implementation. Most of strategies implemented are similar domestically and internationally. They do not consider foreign market requirements as well as their needs. In addition, this study also shows that the moderating effect of global economic situation has not moderate the relationship between all export marketing strategies on export performance. The fluctuation of global economic situation would not influence Malaysian furniture exporters to strategize aggressive marketing programme for global market. Export marketing strategy do not very much depend on what happen in the global economic.

This study shows interesting findings whereby certification moderates the positive relationship between product adaptation, distribution strategy and design strategy on export performance. If product adaptation set by furniture firm emphasis on certification, performance will be increased in export market. Most of foreign buyers tend to look for environmental friendly furniture products which have been certified by certain bodies locally before exporting. This is to maintain buyer's requirements and increase the value-added of furniture products. Furthermore, this result is slightly similar to Cavusgil and Zou (1993) which found that legal environment is the most important factor in a firm's decisions to adapt their products upon entry. An established and efficient distribution system will ensure the security of good sales in export performance. Currently, global markets are more environmental conscious. For instance, 'greening of industry' places emphasis on business responsibility and accountability to variety of stakeholders (Morris and Dunne, 2003). This will contribute into high quality in terms of wood materials and design of furniture products. This is consistent with Lee and Zhou (2000) in their study which suggested that there is a significant association between quality practices and strategy, which eventually influence business practices and performance.

Uniquely, this study also found that certification moderates the negative relationship between promotion adaptation and target market specification on export performance for Malaysian wooden furniture industry. This means that, if the promotion adaptation set by furniture firms emphasizes on certification, export performance will be decreased. Aggressive promotion programmes implemented by the furniture exporters will give an opportunity to the competitors to take advantage from the promotion efforts to offer their products in export market. Sales will be broken down into smaller percentage among suppliers, which inherently cause the first exporter's performance to fall. However, this result was contradicted with Abdul-Aziz *et al.* (2000) which suggested that ISO certification will ensure that the promotion adaptation is on high standard.

In addition, longer process of certification, which means more stringent of licensing approval, documentation and high government bureaucracy will adversely affect promotion adaptation and target market specification in that particular country which directly resulted in low performance of export market. A study by Jensen and Pompelli (2000) suggested that product

promotion, advertising, and market research are perceived as the most important modes of assistance, in locating and identifying potential buyers for products. However, stringent certification process hinders the success of promotion strategy in achieving high performance for export market in the Malaysian wooden furniture industry.

The result also shows that certification do not moderate the relationship between price competitiveness and support to foreign distributors on export performance. Normally, in marketing strategy, the need to certify the pricing is very minimal especially in furniture industry which most of the prices given were based on cost of raw material. Similarly, support to foreign distributors is based on manufacturers or exporters tolerance.

Therefore, certification process should be shortened in order to facilitate smooth implementation of marketing programmes in the international market. In addition, product quality must be maintained in order to enhance promotion adaptation activities. This contention was supported by Lee and Zhou (2000) who noted that firms which are more likely to do business globally and link officially with foreign firms tend to be more quality-conscious. These firms are concerned more on product identity compared to traditional firms. The influence of unstable global economic situation may affect the promotion of furniture products to the foreign buyers. If the global economy is facing unstable situation, promotion adaptation programme will be less effective and result in low export performance.

Other aspects that need to be focused in furniture manufacturing are the improvements of marketing support systems, efficiency of marketing operations such as market research, direct order entry systems, prospect qualification systems and communications with existing clients. The production of environmental friendly and value-added furniture will also help Malaysian manufacturers to penetrate international market.

## **Conclusion**

Overall, this study has shown that export marketing strategy has no direct relationship on export performance in Malaysian wooden furniture industry. In addition, global economic situation does not moderate the relationship between all export marketing strategy variables and export performance. Uniquely, certification does moderate positive relationship between product adaptation, distribution strategy and design strategy on export performance. In addition, it also moderate negative relationship of promotion adaptation and target market specification on export performance in Malaysian wooden furniture industry. These findings add new insight on the export marketing literature especially on the moderating role of environmental factors as a major contribution to this study. It is hoped that for future research, the need to consider other industries as well as cross sectional industries will be fruitful to examine the generalizability of the results. Also, in addition of environmental factors into other dimensions such as government roles will give meaningful findings to export marketing area. Finally, the scales that have been used in export performance need to be standardized in order to increase the quality of data.

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