

**ATTITUDE TOWARDS EXPORTING AND PERCEIVED  
DOMESTIC MARKET ENVIRONMENTAL FORCES:  
MALAYSIAN MANAGERS' PERSPECTIVE**

**JAYARAMAN MUNUSAMY**

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# DEDICATION

.....to my  
wife Chandra,  
my daughter, J.Madhura,  
my sons, J.Vickneshwaran & J.Tarvind.

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## ABSTRAK

Proses globalisasi dan kemunculan kawasan perdagangan bebas mendorong firma-firma MACPM untuk mengekspor. Kajian ini bertujuan untuk meninjau sikap pengurus terhadap eksport dan persepsi pengurus terhadap faktor-faktor persekitaran pasaran dalam negeri di kalangan pengurus-pengurus yang bekerja dengan firma-firma MACPM..Kajian ini juga bertujuan untuk menjelaskan sama ada perbezaan di antara sikap pengurus terhadap eksport dan persepsi pengurus terhadap faktor-faktor persekitaraan pasaran dalam negeri adalah punca perbezaan profil demografi pengurus dan tempat kerja pengurus. Data dikumpul melalui soal selidik dari 135 firma yang merupakan ahli-ahli Persatuan Pembekal Proton dan Kelab Vendor Perodua. Terdapat dua set hipotesis utama digunakan untuk menguji terhadap firma-firma yang tidak mengekspor dan firma-firma yang mengekspor. Keputusan kajian mencadangkan bahawa perbezaan profil demografi pengurus dan tempat kerja pengurus adalah punca kepada perbezaan sikap pengurus terhadap eksport dan persepsi pengurus terhadap faktor-faktor persekitaran pasaran dalam negeri. Kesimpulan kajian ini menunjukkan bahawa pengurus gemarkan tiga daripada empat sikap pengurus terhadap eksport ia itu: komitmen, inovasi dan fleksibiliti. Toleransi risiko terhadap eksport tidak digemari pengurus. Ini adalah merupakan isu yang mustahak untuk diuruskan oleh pihak berkuasa supaya firma-firma MACPM` boleh mengekspor barangan mereka pada masa hadapan.

## ABSTRACT

The process of globalization and the emergence of Regional Trade Agreements have created the needs for MACPM firms to engage in exporting. This study attempts to explore the nature of managerial attitude towards exporting and managerial perception of the domestic market environmental forces among managers working in the MACPM firms and to explain if the differences in managers' attitude towards exporting and managers' perception of the domestic market environmental forces could be attributed to the differences of managers' demographic profiles and their work settings among managers working in MACPM firms. The data were collected through the questionnaires from 135 firms, which are the members of Proton Vendors' Association and Perodua Vendors' Club. Two sets of main hypotheses were used to test on the non-exporting firms and the exporting firms. The results of the findings suggest that the differences in managers' demographic profiles and managers' work settings determine the differences in attitude towards exporting and perception of the domestic market environmental forces among managers in non-exporting and exporting firms. It is concluded that the managers are in favor of three out of four managerial attitudes: commitment, innovativeness and flexibility towards exporting. Risk tolerance towards exporting is not favored by the managers. There is urgency among various authorities to address this issue so that the MACPM firms would be able to export their manufactured products in the near future.



# CHAPTER 1

## INTRODUCTION

### 1.1 Introduction

In recent years, globalization has become one of the major issues which affect the international trade widely. While globalization has become an important issue, the forming of regional trading blocks among world nations has become a new trend in international business to protect the common interest of grouping nations. One such move was the creation of the ASEAN Free Trade Area (AFTA), where the second phase of its implementation will take place in the year 2005. This has prompted the need for organizations to be fit in terms of resources and strategy and flexible in order to stay competitive in the business world. In addition, it has created a sense of urgency among firms to maintain managerial competencies and capabilities in order to compete and survive in a turbulent environment.

In the Malaysian context, the survival of the Automotive Component Parts Manufacturers (ACPM) before and after implementation of AFTA has become a national agenda. Since the inception of Proton and Perodua in 1985 and 1993 respectively, the Malaysian Automotive Component Parts Manufacturing Industry has grown tremendously into a RM 8 billion a year business. Currently, this industry provides employment for nearly 200,000 Malaysians and it also prevents the outflow of currency

in the form of foreign exchange by localization of many automotive component parts. There are about 350 automotive component parts manufacturers supplying component parts to Proton, Perodua and other vehicle assemblers.

With the first phase implementation of AFTA, starting January 2003, the import and export of automotive component parts within the ASEAN region has been liberalized. All automotive component parts imported into Malaysia are subjected to 0 % to 5 % tariffs compared to 30 % to 35 % previously. This means that the Malaysian ACPMs will face stiff competition in the domestic market environment from other component parts suppliers in the ASEAN region. The US, European and Japanese auto giants and their suppliers have located themselves at Rayong in Southern Thailand as they declared Thailand as the New Detroit of the ASEAN market. With this strategic location, the auto giants and their suppliers are expected to penetrate into the Malaysian market easily.

The following example clearly shows how badly the business is affected in the domestic market when there are more competitors entering the market due to market deregularization. Prior to 1984, New Zealand had implemented tariffs barriers on imported manufactured goods from the Asia-Pacific region. After 1984, the New Zealand government removed barriers on import licenses and introduced tariff reduction programs, whereby the tariffs were reduced from 40 % in 1992 to 15 % in 2000. As a result, the Apparel Manufacturing Industry which was a protected industry was affected due to market liberalization. The market for domestically produced apparel was eroded by imports from Australia, China and Fiji and the number of SMEs in the apparel industry almost halved. Those firms which wanted to survive in the industry decided to

export. The formation of the Australia - New Zealand Closer Economic Relations Trade Agreement (ANZERTA) in 1989 helped New Zealand apparel manufacturers to enter the Australian Market (Chetty, 1999). The above reveals that the industry competition and regional trading agreements enhance SMEs to go into export market.

There is a need for Malaysian manufacturers to engage in the exporting of auto component parts to other ASEAN countries while doing business in the domestic market. The ASEAN market, with a population of 500 million as compared to the Malaysian market with only 22 million people, provides not only a bigger market but also provides opportunity for achieving economies of scale for the Malaysian ACPMs.

## **1.2 Problem Statement**

The Malaysian ACPMs are less focused in marketing their manufactured component parts in the export market. This is probably due to their complacency and confidence with the current performance of domestic market sales ( Yaakub bin Arshad, 1995). However, with the implementation of AFTA and other regional trade agreements, there will be more regional players that would create a competitive domestic marketing environment in the Malaysian market. Therefore, these firms need competent and dedicated managers to respond to these phenomena. High risk tolerant, committed, innovative and flexible managers are required by the Malaysian ACPMs to engage in exporting activities.

Malaysian parts exports actually contracted as component parts manufacturing firms focused their attention on Proton, Perodua and the non-national assemblers in

Malaysia. Managers' in ACPM firms are lazy not taking their firms into the international markets (AutoAsia, 1998).

Are managers working with automotive component parts manufacturing firms exhibiting a favorable attitude towards exporting? The central issue is why managers in this sector are not taking their firms into the international market. Could this be an attitudinal problem?

### **1.3 Research Questions**

Specifically, the present study aims to address the following research questions:

1. What is the current state of managers' attitude towards exporting among Malaysian automotive component parts manufacturing firms?
2. What are the managers' perceptions of the domestic market environmental forces?
3. Do managers' demographic profiles and the managers' work settings explain the differences in their attitude towards exporting and perception of the domestic market environmental forces?

### **1.4 Objective of the Study**

The objectives of this study are as follows:

1. To explore the nature of managerial attitude towards exporting among managers working with the Malaysian automotive component parts manufacturing firms.
2. To explain if the differences in managers' attitude towards exporting and managers' perception of the domestic market environmental forces could be

attributed to the differences of managers' demographic profiles and managers' work settings.

### **1.5 Significance of the Study**

The successful exporting activities of the Malaysian Automotive Components Parts Manufacturers are critical to both organizational and national prosperity and this has gained much support from the Malaysian Ministry of International Trade and Industry (MMITI) recently. It is hoped that this study will help MMITI in understanding how and to what extent managers' demographic profiles and work settings influence managers' attitude towards exporting and managers' perception of the domestic market environmental forces among the Malaysian Automotive Component Parts Manufacturers.

The research on this subject can guide MMITI officials to understand that well-designed export promotion programs are effective only to the extent that targeted companies have a management team who is favorably predisposed toward exporting. In addition, the research may be useful to MMITI to formulate policies which could address the various issues pertaining to the exporting activities of the Malaysian companies in general and the Malaysian Automotive Component Parts Manufacturing firms in specific:

This study can help managers, owners and entrepreneurs who wish to engage in export business as a means of information searching in order to better handle the issues facing them. The research will help management of Malaysian Automotive Component Parts Manufacturers to create a management profile in their organizations that would be conducive to a successful engagement in exporting. Many studies have underlined the importance of recruiting risk-taking, committed, innovative and flexible managers in

boosting the export side of their business. The present study complements the findings of those researches in that the Malaysian Automotive Component Parts Manufacturing firms are also required to recruit managers with the above attitudes toward exporting.

This study also contributes or introduces new variables which are different from earlier theoretical foundations. Managers' demographic profiles such as managers' age, length of service and educational levels are usually termed as managers' characteristics in many other studies. Similarly, managers' work settings are termed as organizational characteristics in other studies. The managerial attitudes have been termed managerial determinants, managerial factors, managerial characteristics and managerial parameters in other studies. The perception of domestic market environmental forces is termed perceived environmental uncertainty in many other studies. But in this study these key terms are introduced with new terminologies to give readers a broader outlook of those concepts and their definitions.

Secondly, this study integrates three areas of research into a new area of study. The integration of this study comes from psychology literatures, strategic management literatures and technology management literatures. The concepts such as competitive intensity, technological turbulence, and product-market turbulence were introduced by Jaworski and Kohli (1993) in their strategic management literature. The concepts like innovativeness (Schumpeter, 1942) and flexibility (Dichtl, 1983) were originated from technology management literatures and finally risk taking (Holzmuller & Kasper, 1990) and commitment (Daniel & Robles, 1982) were originally from psychology literatures.

This study is the first of its kind conducted in the Malaysian Automotive Component Parts Manufacturing Industry. Hence, it will help PPP and KVP officials to understand

better the actual situation of the industry and the issues that need to be addressed by them. The PPP and KVP secretariat will be able to formulate strategies that would spearhead the growth of the Malaysian Automotive Component Parts Industry in Malaysia.

## **1.6 Definitions of Concepts**

### ***1.6.1 Managerial Attitudes***

Managerial attitudes mentioned in the exporting literatures refer to decision makers' preconceived views, perceptual tendencies, expectations, beliefs, and general attitudes towards foreign markets (Reid, 1981). This definition is similar to the original definition of the attitude concept in psychology and social psychology as a single-component entity (Hajjat, 1990). Attitudes consist of three components of beliefs about the attitude object, affective feelings, and behavioral intentions which, in turn, influence three types of response, including cognitive, affective, and behavioral responses (Zanna, 1990).

These attitudes are very important to facilitate the managers to push and persuade the firms to initiate exporting. According to Cavusgil (1984) and Miesenbock (1988) managerial attitude is a crucial factor for the export success of firms. Bijmolt and Zwart (1994) argue that export success will be realized when the managerial attitude supports exporting. They add that attitude towards export is measured by the priority given to export; the risk perception of export, and whether or not it is thought that export should start in a country nearby. The managerial attitudes under consideration in this study are risk tolerance, commitment, innovativeness and flexibility.

#### ***1.6.1.1 Risk Tolerance***

Holzmueller and Kasper (1990), define risk tolerance as risk preference of a decision maker towards foreign market orientation. They contend that risk preference positively correlated towards foreign market orientation. Leonidou et al. (1998) explain that when managers are willing to assume risk situations, the degree of risk attached to export operations is reduced. MacCrimmon and Wehrung (1986) suggest that a risky situation is one in which the magnitude and chance of exposure to an outcome make a person worse off than some reference status quo or are perceived as less desirable than other potential alternatives.

Yates and Stone (1992) suggest that the critical elements of the risk construct are (a) potential losses, (b) the significance of those losses, and (c) the uncertainty of those losses. Risky situations are those that involve some potential for relative loss. Riskiness increases as the magnitude and uncertainty of potential losses increase. Sitkin and Pablo (1992) define risky decisions as those in which (a) expected outcomes are more uncertain, (b) decision goals are more difficult to achieve, or (c) the potential outcome set includes some extreme consequences.

In this study risk tolerance is associated with exporting activities which means it is an individual's attitude of acceptance of risks towards exporting. This acceptance of risk is seen as an important criterion for a successful export business.

#### ***1.6.1.2 Commitment***

Leonidou, Katsikeas and Piercy (1998) define managerial commitment as the deliberate interest and sufficient allocation of marketing, financial, production, personnel and



resources to corporate activities. They contend that the manager's degree of commitment is strongly associated with the export propensity of the firms. Commitment refers to an interest or liking to continue doing a task for an extended period, even it is difficult to endure and face problems. Johanson and Wiedersheim-Paul (1975) define managerial commitment as the commitment of company resources towards exporting to foreign markets.

Daniels and Robles (1982) define export commitment as the likelihood to use more capital intensive methods to produce products of higher quality for export markets. Watanabe (1972) provides the example of the Korean Embroidery Industry, which succeeded in boosting exports by committing to expensive modern German machines to produce goods for export sector while retaining the cheap secondhand and more labor intensive Japanese machines to meet local demand. Roe and Shane (1979) indicate that the small Rattan furniture manufacturers in Malaysia use traditional methods and sell in the domestic market while exporting firms committed to modern cutting, designing, and shaping methods.

In this study commitment is explained as the managers' commitment towards exporting. The managers' commitment is implied as the individual's positive feeling towards exporting, strong interest towards exporting, willingness to allocate resources towards exporting, and managers' perseverance to engage in exporting even if it is difficult to endure.

### 1.6.1.3 *Innovativeness*

Schumpeter. (1942) defines innovation as "It is not the knowledge that matters, but the successful solution of the task *sui generis* of putting an untried method into practice...successful innovation...is a feat not of intellect, but of will. It is a special case of the social phenomenon of Leadership", quoted in Kingston (1995). Afuah (1998) defines innovation as the competence and endowments which provide new technological knowledge for the success. Innovation has been defined as a renewal by means of technology, but it can also refer to renewal in terms of thought and action (Poutsma et al., 1987). Innovativeness is an attitude of a decision-maker, which facilitates an organization to become market-driven in order to meet the customers' continually changing requirement and the dynamic marketing environment.

Managers who are innovative are not only inclined towards new ideas but also view and do things differently. Innovativeness is defined as the strategy of new product development process, development of appropriate organizational structures and reward systems, and creation of a conducive organizational setting for effective functional teamwork (Cooper & Kleinschmidt, 1987; Kleinschmidt & Cooper, 1988). These innovative strategies are critical determinants of export market entry (Kwaku Atuahene-Gima, 1995).

In this study innovativeness means managers' innovativeness towards exporting. It implies that the managers provide new ideas towards exporting, adopt changes in firms' business to support exporting and propose new design for production which creates excellent products for exporting.

#### *1.6.1.4 Flexibility*

Leonidou et al. (1998) defines flexibility as an attitude where the manager can change his or her stand on the basis of new needs or changing conditions. Dichtl et al. (1983) argue that flexible managers are more likely to pursue export operations, as opposed to managers with more rigid profiles. Managers' flexibility begins with an open minded attitude which is converted into a behavioral change in order to adapt to a new business condition. When there is a decline in sales due to poor market conditions, the managers quickly engage in cost saving activities which in turn creates impact on the company profit.

Flexibility means open-mindedness in thinking which leads to behavioral modification to accept or receptive to changes. A flexible manager would feel comfortable when he is placed in every new business situation. As a flexible manager, he has the qualities to deal with any unforeseen problems and turn into a successful or an opportunistic situation. A flexible manager knows how to manage changes on him as well as manage changes which take place in the marketing environment. The flexible manager generally understands the tasks or actions required to perform in various business situations. The bottom line is that the flexible manager and his organization could survive in all turbulent conditions.

In this study flexibility means managers' flexibility towards exporting. It implies that managers' feel comfortable to move company business into export sector, managers adapt their behaviors to the changing condition of marketing environment which warrants

the company to engage in exporting, and managers understand the task expected from them when their firms need to engage in exporting.

### 1.6.2 *Perceived Domestic Market Environmental Forces*

While performance levels of firms have been attributed to managerial factors, perceived domestic market environmental forces can also have a strong impact on the firms' growth. The impact of environmental forces on export marketing behavior of firms has been the subject of much investigation ( Bilkey, 1978; Kaynak & Kothari, 1984; Reid, 1984). The perceived domestic market environmental forces creates the level of uncertainty faced by managers has been cited as an important determinant of behavior (Thompson, 1967, Lawrence & Lorsch, 1967; Duncan, 1972). The perception of environmental uncertainty exists when managers do not feel confident that they understand what the major events or trends are, or when they feel unable to accurately assign probabilities to the likelihood that particular events and/or changes will occur (Duncan, 1972; Miliken, 1987).

Morgan (1999) defines domestic market environment as the host to complex phenomena that affect, and are affected by, the actions and activities of both exporting and non-exporting firms. The external marketing environment in which the firm operates is constantly keep changing. The changing environmental factors have been found to be the critical elements in determining the impacts of different competitive and technological strategies (Spital, 1992). The domestic market environment captures those uncontrollable market forces and conditions outside the firm's organizational boundaries but within the home country of operations which affect, and are also affected by, the

firm's action (Yeoh, 1994). In the strategic management literature, three major forces which are often used to describe the firm's environment are perceived competitive intensity, perceived technological turbulent and perceived product-market turbulent.

#### *1.6.2.1 Perceived Competitive Intensity*

Jain (1990) classifies competition as natural competition and strategic competition. She defines natural competition as the survival of the fittest in a given environment. Whereas, Henderson (1981), defines strategic competition as a studied deployment of resources into systematic cause and effect relationship in business ecological system. Porter (1981) explains two types of theory of competition; the Economic Theory and Industrial Organization Theory. According to the Economic Theory, there exist only perfect competition where the industry is characterized by many buyers and sellers; only homogeneous product; free market entry and exit; and free flow of information and knowledge. According to the Industrial Organization Theory, the firm's position in market place is influenced by structure, conduct and performance of the industry environment. Porter (1981) argues that when competitive intensity in the external environment increases, it means the degree of rivalry among competitor's increases. Thus, the industry competitive intensity is characterized by many competitors, industry growth, less product differentiation, asset intensity and high exit barriers.

Kotler (2000) argues that competitive intensity in the external environment creates the market as unattractive, where it already contains numerous, strong, or aggressive competitors. It is even more unattractive if the market is stable or declining, if plant capacity additions are done in large increments, if fixed costs are high, if exit

barriers are high, or if competitors have high stakes in staying in the market. These conditions will lead to frequent price wars, advertising battles, and new-product introductions and will make it expensive to compete.

When the firms' products are in the maturity stage of product-life cycle, there will be more players in the market competing for the market share. The competitive situation creates market saturation for the products and this creates incentives for firms to seek more profitable opportunities for their products in overseas markets (Reid, 1984).

Increasing competition in the domestic market is a significant determinant of the firm's intent to enter, or expand, foreign market activities (Morgan, 1999). The intense competition in the domestic market no longer provides economies of scale for the firms' products. Domestic market no longer provides adequate economies of scale effects and scope, thereby promoting the attraction of venting sales through export channels (Cavusgil, 1984).

Competitive intensity is defined as an hostile marketing environment where threat to the firm posed by the multifaceted and competition and the downswings and upswings of the firm's industry (Covin & Slevin, 1989; Miller & Friesen, 1978). Hence this study defines competitive intensity is characterized by rivalry and price war among competitors, constant changes in competitor's strategies and potential entries of new players.

#### ***1.6.2.2 Perceived Technological Turbulence***

Jaworski and Kohli (1993) define technological turbulence as technological change, which increases the degree of environmental uncertainty. The firms need additional

resources to invest in research and development activity in order to fight against technological challenges facing them. Khalil (2000) defines technological change as the process of competitors competing to shorten their product development lead time. In the automotive industry, the competitors compete to shorten their development lead time of new models through rapid prototyping and also by concurrent engineering approaches. Hadd et al. (1997) defines technological change as the process of innovation strategy to achieve the final corporate strategy. They have adopted this definition from the framework of Innovation Strategy forwarded by Teece and Pisano (1994).

Technological turbulence is characterized by the rate of technological change and innovation in the industry as well as the uncertainty or unpredictability of the actions of competitors and customers (Miller et al. 1988) An example is the existence of foreign competition and the firm's ability to compete against them (Alexandries, 1971; Ogram, 1982).

Therefore, this study defines technological turbulence as rate of changes in technologies where new technologies make previous technologies obsolete. The competitors constantly invest in the development of new technologies to keep themselves abreast of the competition. The SMEs which are unable to invest due to resource constraints will loose out in the dynamic environment.

#### ***1.6.2.3 Perceived Product-market Turbulence***

Morgan (1999) defines product-market turbulence is an aspect of environmental uncertainty. He argues that this uncertainty is continually drawn to the attention of the decision-maker so that the firm could strategize for future survival. Jaworski and Kohli

(1993) define product-market turbulence as a market where products and services become obsolete due to customers' changing preferences. They contend that organizations that operate in more turbulent markets are likely to have to modify their products and services continually in order to satisfactorily cater to customers' changing needs.

It means firms need to invest more resources in modifying their products in order to satisfy customers' changing needs and wants. Kotler (1998) contends that the market leader invests huge capital in developing new product, distribution, informing and educating the consumers but the market follower come along closely, copy or improve the new product, and launch it. The follower attains high profits because it did not incur any investment budget.

Porter (1979) defines product-market turbulence as a state of heterogeneity in production and marketing orientations. He explains that firms require diversity in production and products when the firms experience variations market demand. Tesar and Tarleton (1982) suggest that the amount of adaptation and servicing of products to various customer segments around the world will keep the firm abreast of the product-market turbulence. In this study the issue of product-market turbulence is dealt with changes in customers' preference, changes in customers' satisfaction, initiatives towards product modification and new product development, and investment in relation to product development and modification initiatives.



## **CHAPTER 2**

### **BACKGROUND OF THE AUTOMOTIVE COMPONENT INDUSTRY IN MALAYSIA**

#### **2.1 Introduction**

The automotive industry has been an important industry in the economic development of Malaysia. Initially, motor vehicle assembly plants were set up to provide employment and to reduce import of completely built-up vehicles. Gradually, the automotive component parts manufacturing industry was developed to cater for requirements in the replacement market and later to increase the local content of locally assembled vehicles. The National Car Project undertaken by Perusahaan Otomobil Nasional Bhd. (PROTON) was another step towards the development of an integrated automotive industry with special emphasis on the manufacture of component parts. Following the success of PROTON, a second National Car Project by Perusahaan Otomobil Nasional Kedua (PERODUA) was launched. These two projects provided a base for the development of the automotive component parts manufacturing industry in Malaysia.

#### **2.2 Early Phase of Development**

The automotive component parts industry in Malaysia began with small scale production of common replacement items such as tire, battery, filters, etc. The production of parts for

the Original Equipment Market (OEM) only began with the commencement of motor vehicle assembly.

### **2.3 Motor Vehicle Assembly Industry**

The industry started with assembly of motorcycles, passenger and commercial vehicles from Completely Knocked-Down (CKD) parts in the late 1960's. To assist and promote orderly development of the industry, several policies and regulations were implemented such as restriction on number of assembly plants as well as models of vehicles for local assembly, restriction on import of Completely Built-Unit (CBU) vehicles through import licensing, imposition of import tariff on CBU vehicles, supervision of Net Selling Price (NSP) and CKD definitions which outline the degree of knocked-down condition of imported parts and compulsory component parts to be localized. As a result of the assistance provided and rising domestic demand, the assembly industry has grown tremendously in the 1970's.

Despite tremendous growth in the domestic market, the assembly industry has not been able to achieve significant value added and spin off effect. This was because most of the component parts required for the assembly of motor vehicles was from CKD packs imported from principal sources. The localization of original equipment parts have been limited to tires, batteries, paints and filters which accounted for less than 10 % of the parts required.

## 2.4 Malaysian Market for Motor Vehicles

The Malaysian market demand for motor vehicles is mainly met by local production and to a small extent by import in the form of used, reconditioned or new Completely Built-Up (CBU) units. Generally, the motor vehicles market is characterized by a diversity of makes and models and is subjected to frequent model changes specifically the Japanese makes.

After undergoing a period of instability, the industry has performed slightly better in the years 2001 and 2002 compared to the previous years. In the year 2003, the industry started facing sluggish growth due to reduction in demand for motor vehicles. This trend is continued in to the year 2004.

Table 2.1 shows a three year sales trend of Passenger Cars, 4 x 4 passenger vehicles, Commercial vehicles and 4 x 4 commercial vehicles in Malaysia. Between year 2001 and 2002, the passenger cars sales grew by 10 % from 327,447 units in 2001 to 359,934 units in 2002. The market share for passenger cars remained at 82 % in 2001 and 2002. However, this trend has changed whereby the passenger cars sales dropped by 11 % from 359,934 units in 2002 to 319,847 units in 2003 and the market share too dropped to 79 % in 2003.

This is partly due to the impact of economic uncertainty during the first half of 2003 attributed to the SARS scare and the Iraq war. At the same time, the reaction by consumers in anticipating price reductions with new liberalized tariffs had the effect of dampening sales of vehicles.

The 4 x 4 passenger vehicles had maintained its market share at 4 % from the years 2001 to 2003. But, it started experiencing reduction in sales between years 2002 to 2003. In 2002 and 2003, the sales dropped by 2 % and 5.5 % respectively.

Table 2.1

*Malaysian Motor Vehicles Sales from years 2001 to 2003*

Vehicles Type	2001	@ %	2002	@ %	2003	@ %
Passenger Cars	327,447 units	82	359,934 units	82	319,847 units	79
* %				10		(11)
4 x 4 Passenger Vehicles	15,787units	4	15,424 units	4	14,569 units	4
* %				(2)		(5.5)
Commercial Vehicles	37,623 units	10	42,727 units	10	50,824 units	12.5
* %				13.5		19
4 x 4 commercial vehicles	15,524 units	4	16,869 units	4	19,770 units	5
* %				8.6		17
Grand Total	396,381 units	100	434,954 units	100	405,010 units	100
* %				10		(7)

@ - Market Share of Malaysian Motor Vehicles in percentage.

\* - Difference in sales volume between year 2002 and year 2003 in percentage.

Source: Malaysian Automotive Association, 2004.

The commercial vehicles segment performed better in terms of sales growth by 13.5 % and 19 % between 2001 and 2002 and 2002 and 2003 respectively. At the same time the market share also experienced a steady growth of 10 % and 12.5 % in 2002 and 2003 respectively. The 4 x 4 commercial vehicles also experienced a steady growth in sales of 8.5 % in the 2002 and 17 % in 2003. While the market share maintained at 4 % in 2001 and 2002, it grew further to 5 % in the year 2003. In total, the motor vehicles sales had experienced growth by 10 % between years 2001 and 2002. But, the total motor vehicles sales dropped by 7 % between years 2002 and 2003.

In terms of exports, the sales of Malaysian export of passenger vehicles were valued at RM 334.1 million in 2002 compared to RM 186.7 million in 2001. The above figures suggest that our exports of passenger cars is relatively small. If Malaysia is to be a global producer of automotive vehicles, industry players must take measures to enhance exports. Reliance solely on the domestic market will not enable national car manufacturers to be global players. At the same time car assemblers and components manufacturers should take advantage of liberalization measures in the regional market to increase their exports of automotive products (MITI, 2004).

Table 2.2 exhibits that Proton's market share of 64 % in the years 2001 has been eroded to 48 % in 2003. But, the market share of Perodua has increased from 29 % in 2001 to 37 % in 2003. The market share of other passenger cars has increased from 7 % in 2001 to 15 % in the year 2002. Proton has attained a 2.7 % growth in sales between 2001 and 2002. But, in the year 2003, the sales of Proton cars were reduced by 27.5 %. Perodua sales has increased by 21 % in 2002, but there was a marginal reduction in sales by 2.1 % in 2003. The sales growth of other passenger cars is 29 % in 2002 and the sales

has increased to 68 % in 2003. Overall, the growth in sales of passenger cars is at 10 % between 2001 and 2002. But, in 2003, the passenger cars experienced a sales decline by 11 %.

Table 2.2

*Malaysian Passenger Cars Sales from years 2001 to 2003*

Car Type	2001	@ %	2002	@ %	2003	@ %
Proton	208,746 units	64	214,373 units	60	155,420	48
* %				2.7		(27.5)
Perodua	94,476 units	29	114,265 units	32	111,798	37
* %				21		(2.1)
Other passenger cars	24,225 units	7	31,296 units	8	52,629 units	15
* %				29		68
Total	327,447 units	100	359,934 units	100	319,847 units	100
* %				10		(11)

@ - Market Share of Malaysian Passenger Cars in percentage.

\* - Difference in sales volume between year 2002 and year 2003 in percentage.

Source: Malaysian Automotive Association, 2004.

## **2.5 Automotive Component Parts Manufacturing Industry**

Following the successful establishment of the assembly industry, the government decided to accelerate the development of the component parts manufacturing sector. The components parts manufactured locally were initially few and catered more for the replacement market. The component parts manufacturing industry experienced a slow growth due to the small domestic market, market fragmentation as result of too many makes and models of vehicles assembled and the reluctance on the part of principals to localize parts for local assembly.

These factors hampered the development of the automotive component parts manufacturing industry as the local parts could not enjoy the economies of scale and faced difficulties to penetrate the original equipment market. In view of these factors, the government introduced specific localization programs such as the Mandatory Deletion Program and the Local Content Program for Motorcycles in the early 1980's to assist the automotive component parts industry to penetrate the original equipment market (Yaakub bin Arshad, 1995).

## **2.6 Mandatory Deletion Program**

Under Mandatory Deletion Program, a component part is deleted from CKD pack when the local part Manufacturer(s) is (are) able to supply the original equipment market of the assembly plants. The Local Content Program for Motorcycles was successfully implemented whereby the local assemblers invested in component parts manufacturing. With the introduction of these programs, more component parts were produced to cater to the original equipment market.

However, these programs have limitations as local manufacturers could only produce very few components for the entire domestic original equipment market. The assembly plants continued to rely on imported parts while the component parts manufacturers were still very much domestic market based and unable to penetrate the international market in a significant scale.

## **2.7 Local Content Program**

To promote further growth of the automotive industry in particular the component parts industry, the National Car Project was implemented in 1983. The government has also introduced a Local Material Content Program (LMCP) in 1992 for motor vehicles. This LMCP was implemented to provide a wider market base for the local component parts manufacturers. The LMCP has set local content target of 45-60 % to be achieved over a period of 5 years for various categories of vehicles. With the implementation of the LMCP, the existing assemblers have geared up for localization of more component parts, increased investment in parts manufacture and also export of more local component parts.

## **2.8 Present State of the Automotive Component Parts Industry**

The development of the automotive component parts industry is seen as a means of upgrading local engineering and technical skills and development capabilities to manufacture precision, sophisticated and quality products (AE ASIA, 1995). It is also the government's intention to see that the automotive component parts industry would be competitive in international markets and could be exported to other countries. In view of