

**ANTECEDENTS AND OUTCOMES OF EXPORT  
PRICING PRACTICES EVIDENCE FROM  
GLOBAL PRODUCTION HUB IN PENANG**

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PRICING PRACTICES EVIDENCE FROM  
GLOBAL PRODUCTION HUB IN PENANG**

by

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## **LIST OF ABBREVIATIONS**

ASEAN	Association of Southeast Asian Nations
CT	Contingency Theory
D&D	Design & Development
E&E	Electrical and Electronic
EP	Export Performance
EPP	Export Pricing Practices
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GPS	Global Production Share
GVCs	Global Value Chains
IE	International Experience
MIDA	Malaysian Investment Development Authority
MNEs	Multinational Enterprises
NAFTA	North American Free Trade Agreement
OECD	The Organization for Economic Co-operation and Development
PD	Psychic Distance
PLS	Partial Least Squares
RBV	Resource Base View
SEM	Structural Equation Modelling
TT	Technology Turbulence

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**ANTESEDEN DAN HASIL AMALAN PENETAPAN HARGA  
EKSPORT MELALUI BUKTI DARIPADA PUSAT PENGELUARAN  
GLOBAL DI PULAU PINANG**

**ABSTRAK**

Pusat eksport Pulau Pinang merupakan contoh unik dalam dasar kerajaan yang mengutamakan pembangunan dan menawarkan peluang yang mengkhususkan pengantarabangsaan bermula dengan perkongsian pengeluaran global secara berterusan. Kajian ini bertujuan untuk mengkaji anteseden-anteseden serta hasil daripada amalan-amalan penetapan harga eksport. Ia juga bertujuan untuk mengkaji hubungan antara pengalaman antarabangsa, pergolakan teknologi, jarak psikik, amalan-amalan penetapan harga eksport, dan prestasi eksport (intensiti eksport (EI), pertumbuhan eksport (EG), keuntungan eksport (EP)) dalam kalangan perusahaan multinasional (PMN) di pusat pengeluaran global di Pulau Pinang. Kesan pemboleh ubah penyederhanaan iaitu intensiti persaingan di antara amalan-amalan penetapan harga eksport (EPP) dan keuntungan eksport (EP-EG, EI, EP) turut dikaji. Bagi mengukur rangka kerja kajian ini, teori Pandangan Berasaskan Sumber (RBV), Teori Kontingensi (CT), dan Teori Pembelajaran Organisasi (OLT) telah digunakan. Seterusnya, bagi mengesahkan hubungan antara pemboleh ubah-pemboleh ubah dalam kajian ini, data telah dikutip melalui kajian keratan rentas menggunakan teknik kajian kuantitatif. Sebanyak 50 PMN di Pulau Pinang telah dipilih sebagai sasaran kajian ini melalui kaedah bancian. Walau bagaimanapun, hanya 41 PMN yang telah memberikan maklumbalas. Data yang telah dikumpulkan telah dianalisis dengan menggunakan PLS-SEM Versi 3.0 untuk menentukan, menilai dan

mengesahkan hubungan antara pemboleh ubah serta kebolehpercayaan ukuran soal-selidik kajian dan kerangka kerja. Hasil dapatan kajian mendapati pengalaman antarabangsa dan pergolakan teknologi telah mempengaruhi amalan-amalan penetapan harga eksport secara positif dan signifikan, manakala EPP turut memberi kesan ke atas prestasi eksport secara positif dan signifikan, termasuklah EG dan EP, kecuali EI. Selain itu, kajian ini mendapati jarak psikik tidak memberi kesan secara positif dan signifikan ke atas EPP. Dapatan kajian turut mendapati bahawa intensiti persaingan tidak memberi kesan penyederhanaan ke atas hubungan EPP dan prestasi eksport termasuklah EG, EI, EP. Kesimpulannya, kajian ini telah memberikan pemahaman yang mendalam tentang hasil utama daripada amalan-amalan penetapan harga eksport kepada PMN di pusat pengeluaran global Pulau Pinang, Malaysia. Hasil daripada kajian ini juga turut mencadangkan agar pembuat polisi dan pengurus-pengurus mempertingkatkan program pembangunan eksport di Pulau Pinang.



**ANTECEDENTS AND OUTCOMES OF EXPORT PRICING  
PRACTICES EVIDENCE FROM GLOBAL PRODUCTION HUB IN  
PENANG**

**ABSTRACT**

The Penang export hub is a unique example of a government policy due to its development priorities with emerging opportunities for international specialization initiated by the ongoing process of global production sharing. This study aims to investigate the antecedents and outcomes of export pricing practices. It also intends to examine the relationship of international experience, technological turbulence, psychic distance, export pricing practices and export performance (export intensity (EI), export growth (EG), export profitability (EP)) amongst MNEs at the global production hub in Penang. The moderating effects of competitive intensity in the relationship between export pricing practices (EPP) and export performance (EP) (EG, EI, EP) are also examined. To test the framework, Resource-based View (RBV), Contingency Theory (CT) and Organizational Learning Theory (OLT) were employed in this study. Furthermore, to validate the relationships, cross-sectional data were collected using quantitative surveying approach. A total of 50 MNEs in Penang were targeted by adopting census methods. However, responses from only 41 MNEs using multiple respondents technique were retained. The collected data were then analyzed using PLS-SEM to determine the established relationships and to assess the validity and reliability of this study's measurement together with the structural model. Based on the results, international experience and technological turbulence were identified to significantly influence EPP, while EPP significantly impacts export performance, including EG and EP, except EI. Moreover, this study

did not find any convincing evidence to support the effects of psychic distance on EPP. The results also indicated that competitive intensity does not moderate the relationship between EPP and the three financial export performance indicators export pricing practices. In conclusion, the study provided an enhanced understanding of key outcomes of EPP for MNEs at global production hubs in Penang, Malaysia. The outcomes of the study recommend public policymakers and managers to improve their export development program in Penang

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Introduction**

This chapter provides an overview of the study. The chapter begins with a background of the study which includes an overview of main global business challenges, the real situation of emerging economies and reasons for MNEs from developed countries to engage in global production share in Penang. The chapter also includes key terms, problem statements, research questions, research objectives, the significance of this study and the definitions of terms. The final subsection explains the organization of this thesis. This study aims to investigate the antecedents and consequences of export pricing practices (EPP) and to fill the research gap by employing several theories (RBV, CT and OLT). The theories were used to develop an integrative framework determining the antecedents (international experience, technological turbulence and psychic distance) and outcomes of (export performance) EPP in the context of global production share hub in Penang. This study also investigates the moderating role of competitive intensity between the export pricing practices and export.

#### **1.1 Background of Study**

The strategies of multinational enterprises (MNEs) caused and affected globalization (Buckley & Ghauri, 2015). Having said that, markets of goods and services are integrated at all levels, be it regional and/or international. This interaction is coordinated through different policies adopted by institutions like the European Union (EU), North American Free Trade Agreement (NAFTA), Association of Southeast Asian Nations (ASEAN), South Asian Association for Regional Cooperation (SAARC), etc. The expansion of global production sharing (GPS) is

due to the growing emphasis on export-oriented industrialization in developing countries. Moreover, Malaysia's involvement over four decades as a major hub in GPS networks provided a platform to study the interplay of government policies and global FDI strategies of MNEs in determining developmental gains from global production share (Crespo et al., 2014; William & Vrabie, 2018).

In recent times, the international market has experienced dramatic changes and has become more competitive. Hence, the world market is experiencing a fundamental change where it is moving towards a more integrated and interdependent business environment. The falling barriers in countries for cross-border trade has made it easier to sell internationally. Thus, the increasing globalization of business environments and the rapid growth of international trades enable the MNEs to explore opportunities in the foreign market expansion (Filipescu et al., 2013). Such rapid growth reduced the dominance of the United States and other developed countries in export markets. Meanwhile, other industrialized countries like China, India and Brazil have taken a larger share of the world's exports (Hill, 2011; Kotler et al., 1997; Strange & Zucchella, 2017).

An in-depth understanding of the international market trends gained importance in this era of globalization. When a firm decides to enter the foreign markets, it has to consider two different strategic options obtainable to marketers which are adaptation and standardization of the international marketing mix. The primary function is the pricing of the products (Kotler et al., 1997), whereby revenues and costs are managed through the pricing of products. For MNEs, pricing is very important as it helps to manage the portfolio of operations and subsidiaries along with all marketing programs and activities, transfer of training knowledge,

effects of MNEs learning experiences and dynamic capabilities on the performances of subsidiaries.

The concept of MNEs has been ascribed to a combination of two main factors, namely the uneven geographical distribution of factor endowments and market failure (Dunning, 1988), due to their national origins. Some firms' assets are superior to those in many other countries. Moreover, a substantial proportion of these firms have concluded that they can only successfully exploit these assets by transferring them across national boundaries within their organizations rather than by selling their right to use to foreign-based enterprises.

Having said that, there are different entry strategies available for these firms which are not exclusively mutual. Bigger companies can employ all of the strategies simultaneously in various contexts. The entry mode choices are divided into: first, Modes of Non-equity: licensing, exporting, contract manufacturing, franchising and service provision. second ,Modes of Equity: Fully-owned subsidiaries and joint ventures. These modes vary in-terms of risks that are involved. Hence, these modes are diverse in terms of their resource-demand, management and organizations. Moreover, the amount of controlling can also be exercised during foreign operation(s).

Since the 1980s, exports have gained the most important role in the strategies of international marketing which are very critical for the economic growth of all countries either adaptations or standardizations (Griffith et al., 2003). Exports are beneficial and advantageous for firms which wish to enter attractive foreign markets and expand their firms, especially for those with economical challenges (revenue dropping, inflation and high unemployment rate) in the local markets (Hultman et

al., 2009). Besides that, it also helps to raise productivity and sales to enhance profit (Lages & Montgomery, 2004).

As for national governments, exports contribute to developing the countries' economics. Whereby, exports of goods and services influence the foreign exchange reserves to improve the society and nation to progress on industrial grounds (Iftikhar et al., 2016).

The MNEs can combine two functions (FDI & Exporting) of international expansion by producing near the final consumers to avoid transport costs and especially in manufacturing rather than services because the service production requires a cognitive and communication skills while manufacturing industries are relatively requires relatively more non-routine and manual tasks (Oldenski, 2010).

According to the World Bank (2015), exports accounted for approximately 30 % of the global GDP in 2013. Developing economies still lead the global Inward FDI that reached to the highest level at \$681 billion with a 2 % rise compared with declining of global FDI in 2014 due to global economic trend, policy uncertainty for investors and geopolitical risks. China represents the largest of the top ten FDI recipients in the world, five are developing economies while the United States dropped to the third-largest host country. The share of MNE is expected to increase FDI expenditures over the next three years (2015–2017) rose from 24 to 32% (UNCTAD, 2015).

The most suitable way for developing countries to integrate with the world's economy is through market-based reform that promotes business activities performed by MNEs. This process is sequential. Firstly, developing countries have to engage themselves in market reforms to attract FDI. Secondly, western MNEs build their subsidiaries in developing countries to enhance macroeconomic infrastructures.

These foreign MNEs do provide services such as employee training with marketing and managerial skills, transferring of technologies, improve network links and form high-quality supply chain mechanisms (Rugman, 2016). This process mimics the Canadian history of MNEs. Based on the literature, Canada relied on inward FDI (mainly from the United States) for many years until the 1980s when it decided to develop a set of world-class Canadian owned MNEs.

MNEs are forming conducive environments to attract more consumers of services and goods in emerging countries in order to transform these emerging markets into bigger hubs of consumption. Such developments offer opportunities for MNEs to capitalise and move their business operations to markets that are traditionally considered as assembly or low production centres. There are certain examples of MNEs in countries such as India, Mexico, Brazil and China where emerging countries were converted into developed countries. In these countries, MNEs took advantage of the growing demand for services and goods (Amighini et al., 2015).

The globalization of economies of the world has gained importance for growth, survival and long-term viabilities of business firms. They are also important for the national economy. Export plays the most significant role to overcome trade deficits issues and also act as the most viable strategic options for businesses and firms for internationalization. Hence, export is the most common foreign market entry mode as it provides firms with higher level of flexibilities and cost-effective ways to penetrate in the new international markets quickly. Thus, decisions for exporting market strategies and public exports promotional policies have been taken to increase corporate performances and economic welfares (Morgan & Katsikeas, 1997; Zhao & Zou, 2002; Leonidou, 1995).

## **1.2 Emerging and Developing Countries**

By the early 1990s, some small MNEs which transformed into large firms have a potential global market (Khanna & Sinha, 2005). Policymakers in most of the developing countries have reduced the barriers and have started to encourage the FDI through varieties of incentives (Turnock, 2017). The incentives include monetary incentive (lower tax rates, tax holidays, guarantees, subsidised credits and grants), donations and complementary investment in human capital and infrastructures (Sharma, 2018). Therefore, with the assistance of international agencies, FDI is considered as a major component of the developmental policy. Political leaders in most of the countries regard inwards FDI as a source of employment (Ball, 2019). This all create value chain, multiplier effects and also impact on exports, fiscal revenue and so on (Narula, 2014).

Emerging markets can substantially impact the world economy due to their wide distribution, rapid growth and enormous economic volume (Mallick & Marques, 2016). Firms located in developed countries have moved their product lines into developing countries in order to reduce costs in labour and raw material. Hence, the developing economies are benefiting by learning advanced technology, improving income and consumption, and accelerating their economic development (Ju, 2015). Having said that, today's developing countries share much in common with emerging countries in terms of high growth and high returns. World Bank reported that GDP growth in emerging economies was approximately 4.8% in 2013 which was 1.3% higher than that of developed countries. While the average GDP growth of the world was 2.2%. China which is an emerging economy maintained its real GDP growth at double-digit from 2005 to 2007. 'Emerging countries' do not



have an all-encompassing definition. Some researchers refer to them as the developing countries with stable, high and fast growth. Meanwhile, Arnold & Quelch (1998) defined emerging countries in terms of GDP per capita, a growth rate of GDP and the stability of free-market systems. For instance, Malaysia, Indonesia, India and China in Asia, Poland in the European continent, Argentina, Mexico and Brazil in South America are examples of emerging countries. BRIC is the widely used term to describe the four largest emerging economies namely Brazil, Russia, India and China (Fan, 2008; Guarino, 2010; Guillen & Garcia-Canal, 2018).

However, Malaysia is still considered as a developing country instead of going rapid economic growth over the past few decades. Malaysia's per capita income, GDP, HDI, average standard of living and industrialization level are not at par with developed countries. According to the World Bank, Malaysia's HDI of 0.78 and GDP per capita of \$9,766 are equivalent to the emerging economies. Moreover, the IMF also classified Malaysia in the list of developing and emerging countries, as Malaysia shared similar characteristics with other emerging economies like China, Indonesia and Brazil. The characteristics include above the average return for investors, less-mature capital markets, high volatility, rapid economic growth and lower to middle per capita earnings (Investopedia, 2016).

Therefore, the developed economy is typically characteristic of a developed country with a relatively high level of economic growth and security . The standard criteria in evaluating the development of a country include income per capita or per capita gross domestic product, the level of industrialisation, the general standard of living and the amount of technological infrastructure (Investopedia, 2016).

### **1.3 Export Sector in Penang**

Export is the easiest and fastest way for firms from developing markets to penetrate foreign markets (Gao et al., 2010). Exporting also represents an attractive mode of foreign market entry because it requires a lower commitment of a firm's resources compared with to other alternatives such as Greenfield investments or international joint ventures.

Export trades are also important for governments as it contributes to the economic development of nations, improves productivity and creates jobs (Sousa & Lengler, 2009). However, a majority of the firms in emerging markets are still in their early stages of internationalization, whereby their international expansion is primarily accomplished by manufacturing in their home country and exporting to foreign markets. Consequently, they still strongly depend on overseas customers (Aulakh et al., 2000).

The Malaysian export sector has witnessed significant changes both in terms of growth and composition of commodities over the last five decades. Malaysia's industrialization policy can be viewed as a success for two reasons. Firstly, according to Ghatak et al. (1997), Malaysia's exports sector witnessed changes in product composition since 1987. During the 1960s, the composition of Malaysian exports was dominated by mining and agricultural products. However, during the 1990s, the manufacturing sector observed significant growth of about 80% of the overall exports in Malaysia. To date, this sector maintains its contribution to the total exports from Malaysia (Bank Negara Malaysia, 2014). Secondly, besides the shift in the composition of the exports in manufactured goods, the Malaysian economy registered modest growth in exports. For instance, between 2006 to 2010, the

economy reached an average annual export growth of 5.5%, despite the significant fall in export by about 20% in 2009 (United Nations, 2013).

The expansion of global production share is linked with the growing emphasis on export-oriented industrialization in developing countries. It has also gained prominence as a new dimension to the policy development debate (Athukorala, 2017). Approximately 49% of the world trade in goods and services in 2016 took place within global value chains (GVCs), whereby the different stages of the production processes are located across different countries (Rodrik, 2018).

Recently, many countries tend to specialize in a particular stage of a good's production (known as vertical specialization). This tendency is brought about by foreign direct investment which creates new trade opportunities especially in small developing countries and eastern European economies. As a result, world trade in intermediate goods (where a good or service purchased by a manufacturer is used as an input in another product) has grown due to vertical specialization. Many economies expanded their participation in GVCs between 1995 to 2011 by importing more foreign inputs to produce the final goods and services. Hungary and Poland, for example, joined the manufacturing production chains for chemicals, transport and electrical equipment after joining the European Union. Meanwhile, the East Asian economies have significantly increased the share of imported components in their exports. Additionally, some economies including China, the Republic of Korea, Thailand and Malaysia have benefited from the investments in infrastructure and resources to be also known as Factory Asia (MIDA, 2017).

On the other hand, Cambodia has become a prominent example of a least-developed country which has successfully increased its vertical specialization by 24% between 1995 and 2011. Having achieved that, Cambodia demonstrated that

integration into regional supply chains can take place quickly. High growth in international participation results from an adequate supply of primary products required for industrial production, for instance, oil exporters such as Saudi Arabia, Brunei Darussalam, Russia or Norway, and agricultural and mineral exporters in South America (WTO, 2015). In 2015, industries with medium-high-technology intensity accounted for over two-thirds of total OECD manufacturing exports. Despite the rapid growth of technology exports in Iceland, Turkey and the eastern European countries, most of these countries except for Hungary and the Czech Republic still focus on low and medium-low-technology exports. Malaysia is the second country in the world after the Philippines for its manufactured exports to have achieved a high percentage of exports (43%) in high technology Figure 1.1

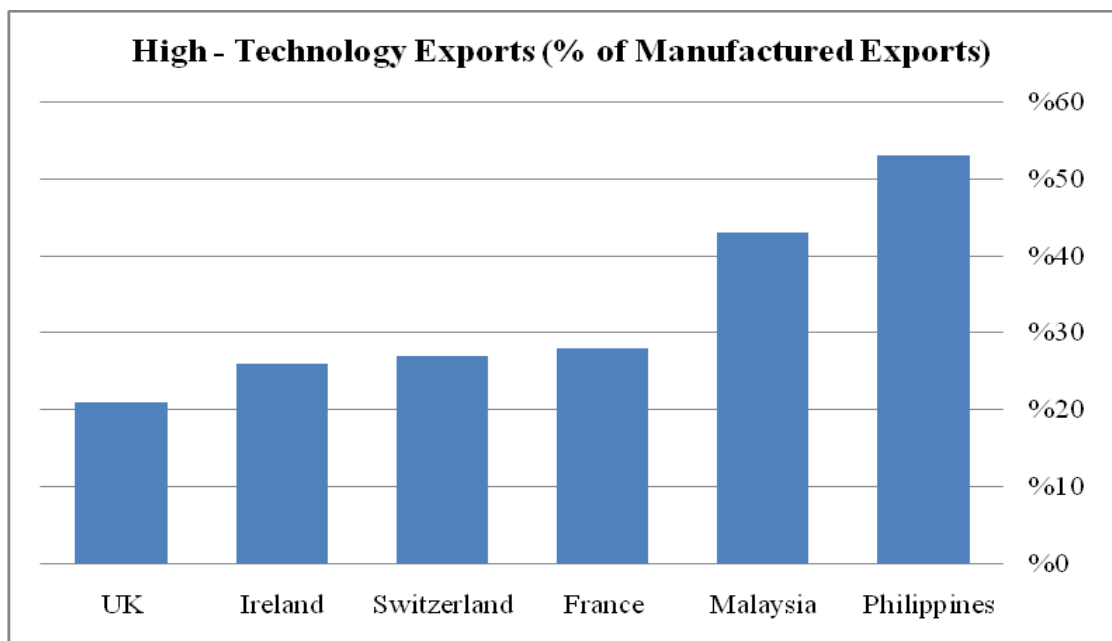


Figure 1.1. High Technology Exports (WTO, 2017)

#### 1.4 Electronic and Electrical Sector in Penang

Since the early 1970s, Malaysia, an emerging country, shifted from a resource-based economy that was known throughout the world for rubber and tin to a manufacturing powerhouse centered on large-scale electronics export. The

manufacturing sector's share of total exports rose from 6% in 1970 to over 70% by 2014 (MIDA, 2015). The major export markets for Malaysia are Singapore, China, USA, Japan and Thailand . The electrical and electronics industry which is the leading manufacturing sector in Malaysia contributes significantly to the country's exports (33.4%) and employment (23.7%) . Malaysia's approved investment for electrical and electronic products was RM 9.7 Billion in Dec 2017, compared to RM 9.3 Billion for Dec 2016. The electrical and electronic products averaged to about RM 8.9 Billion from Dec 2010 to 2017 Based on Table 1.1, the highest investment was RM 20.1 Billion in 2011 and the lowest was RM 4 Billion in 2012 (MIDA,2018)

Table 1.1 *Malaysia's investments in the electrical and electronic sector*

<b>Description</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Total investment (RMBillion)	9.8	11.14	8.9	9.3	9.7
Foreign investment	8.5	10.42	8.2	8.5	8.8
Domestic investment	1.3	0.724	0.7	0.8	0.9

The electronic and electrical sector has been vital for the economic growth in Malaysia for the last three decades, which assisted the country to shift from an agricultural exporter into an industrial exporter (MIDA, 2015). Malaysia's specialization in electronics is higher than in most OECD what is this? countries, which gives the country a strong foundation for a future in the most innovative sectors of manufacturing and related services (MIDA, 2015).

By the year 2000, the export value in Malaysia was estimated at US\$ 50 billion offering over 300,000 employments. The electronic and electrical sector is centered in the three states of Malaysia namely Penang, Selangor and Johor (MIDA, 2017). Penang and Selangor have the strongest manufacturing base, but enterprise networks are largely limited to Penang. Meanwhile, Johor mainly serves as a relocation base for firms from Singapore. However, all three states lack in innovation

and human resource base. Hence, the regional authorities in Penang are taking efforts to remedy these problems (UNITED, 2003). Having said that, the presence of major MNEs such as Intel, AMD, Freescale Semiconductor, ASE, Infineon, STMicroelectronics, Texas Instruments, Renesas and other major Malaysian-owned companies such as Silterra, Globetronics, Unisem and Inari has contributed to the steady growth of the semiconductor industry in Malaysia. To date, there are more than 50 MNEs producing semiconductor devices in Malaysia (MIDA, 2017).

Additionally, free trade zones (FTZ) were established in Penang to attract electronics MNEs to set up production facilities there (MIDA, 2014). Penang which is the major export production hub for global production networks is a feasible study subject to assess the interplay of government policies and global sourcing strategies of MNEs in determining the developmental gains from global production sharing (Athukorala, 2014). Despite its GDP contribution to the Malaysian economy, Penang is ranked fourth after Selangor, Johor and Selangor. However, Penang is considered as the most dynamic and competitive state due to its production focus on high technology, FTZ for MNEs concentrating in ICT and IOT as Silicon Valley for semiconductors allocated at free industrial zone (FIZ) (Athukorala, 2014).

The five major trading partners with Penang include China (including Hong Kong), the US, Japan, the Eurozone and Singapore. These countries contributed to approximately 51% of Penang's total trade in 2014, whereby the performance of trading is a deficit with Japan and Singapore, and surpluses for the other three countries (Leng, 2015).

The recent trend in the Malaysian electronic and electrical industry is the integration of design and development (D&D), which is in-line with the direction of the government to increase the value chain (Athukorala, 2014). The D&D

expenditure doubled from RM 1 billion in 2007 to RM 2 billion in 2012. Similarly, the number of D&D engineers also soared from about 2,000 in 2007 to 5,500 in 2012. Despite the remarkable growth in this sector, the dynamic changes in the high technology and turbulent demand in the global market remain as key challenges in the electronic and electrical industry today. Moreover, there are not many experienced engineers in the Malaysian electronic and electrical industry for MNEs to expand their D&D activities and challenges in building an ecosystem for green technology (MIDA, 2017). Nevertheless, more strategic partnerships between SMEs and MNEs through strategic programs could help them to grow and compete globally.

MNEs are likely to undertake technological activities once the domestic market is large enough in R&D level and locating it close to the production site to enable high efficient communications and controlling the production process in appropriate way as well as adapting the necessary modification in the process since many of the host countries have low technology level compared with home country through the change of plant design and production methods. This, in turn, will bring high growth and response to market demand (Wei & Balasubramanyam, 2017).

## **1.6 Problem Statement**

Despite BREXIT and Trump's strategies for the US, continuous movements towards globalization still exist, whereby export is regarded as one of the most important factors in achieving high performance by seeking new markets and satisfying foreign customers (Friedrichs, 2019). A rapid global spread of production sharing has been driven by three mutually reinforcing developments (Jones et al., 2004; Helpman, 2011; Baldwin, 2016). First, the advancements in production technology have enabled the industry to slice up the value chain into finer, 'portable'

components. Due to the advances in the modular production technology, some fragments of the production process in certain industries have become ‘standard fragments’ that can be effectively used in some products. Second, technological innovations in communication and transportation have shrunk the distance that once separated the world's nations, and improved the speed, efficiency and economy of coordinating geographically dispersed production processes. These innovations have facilitated and reduced the cost of establishing ‘service links’ needed to combine various fragments of the production process across countries in a timely and cost-efficient manner (Jones et al., 2004). Third, liberalisation policy reforms across the world over the past four decades have considerably removed barriers to trade and foreign direct investment. There is also an important two-way link between improvement in communication technology and the expansion of fragmentation-based specialisation within global industries. The latter results in lowering the cost of production and rapid market penetration of the final products through enhanced price competitiveness. Scale economies resulting in market expansion, in turn, encourage new technological efforts, enabling further product fragmentation. This two-way link has set the stage for trade in parts and components and final assembly traded within global production networks (‘network trade’) to increase more rapidly compared with conventional commodity-based trade (Jones, 2000).

Since the interest of most international business studies focused on guiding whole marketing mix strategies, the central focus of price decisions was ignored (Theodosiou & Katsikeas, 2001). Despite the calls for more research on export pricing, very few attempts were made (Myers, Cavusgil & Diamantopoulos, 2002). The main reasons for this neglect are the complex nature of international pricing, the



unwillingness of managers to discuss the issue (Myers & Cavusgil, 1996) and the absence of fit international pricing theories (Clark, Kotabe & Rajaratnam, 1999). However, export pricing is the basis of MNEs decisions in the global production share among the emerging countries.

Having discussed all the above, the existence and importance of MNEs grabbed the attention of scholars for decades, even before the multinational activities globally (Athukorala, 2017). A set of conceptual explanations drawn from diverse theoretical traditions has been utilised over the years to understand and analyse the behaviour and strategies of MNEs. A fundamental theoretical and empirical puzzle that academic research has attempted to solve is associated with the existence of firms that keeping high growth and more sustainable.

The export activities represent puzzles to MNEs as an option to sell internationally not from home to host country directly but by a third party taking some tasks to serve the international market by using the global production share (Athukorala, 2017). Theoretically, many of the recent studies demonstrated a set of internal and external factors related to export pricing and the performance of firms (Lages & Montgomery, 2005; Myers et al., 2002; Solberg et al., 2006; Sousa & Bradley, 2008; Jieke & Sousa, 2016). A comprehensive review of the export pricing literature (Tan & Sousa, 2011) indicated that most the studies focus on the adaptation or standardisation of export prices and comparison between local and foreign prices with little emphasis on export pricing practices. Meanwhile, according to Jieke & Sousa (2016), the export performance within a limited period (2006-2014) demonstrated that the prominence of export performance is still characterised by fragmentation and diversity, which hinders theoretical and practical development. Numerous new determinants are identified; data quality and statistical biases have

received considerable attention and interaction and indirect relationships are considered. In parallel, research on export pricing remains limited due to the lack of theoretical bases, inconsistent empirical test results together with insufficient research framework and statistical methodologies.

The available literature on export pricing on MNEs discussed the management of the international business in different economies or technological environments (developing and developed countries) as most of the MNEs are located in developed countries (Obadia, 2013; Tan & Sousa, 2011; Myers et al., 2002; Tzokas et al., 2000). The nature of export prices is unclear, which illustrates the problem due to the confidentiality and complexity of these functions as well as their direct impact on the overall results of either MNE subsidiaries or parent company that is why researchers considered the export pricing concept carefully (Tan & Sousa, 2011; Sousa & Bradley, 2009). Moreover, it is difficult to determine whether the export price under investigation is the cross-border price (the transfer price between the exporter and its foreign distributor) or the local price which is offered to foreign consumers.

The available research on export performance is still under maturity (Sousa et al., 2008) and it is still characterised by divergence and discordance (Katsikeas et al., 2000; Sousa et al., 2008; Tan & Sousa, 2011). Although a range of theories has been considered for export performance, individual theory only provided a fragmented view of export performance. Therefore, a systematic theoretical framework that could comprehensively explain the drivers of export performance remains absent (Lages et al., 2008; Wheeler et al., 2008; Tan & Sousa, 2011). Although there is a wide range of determinants, only a few of these are studied in depth. Most studies

investigated the direct link between the antecedents and export performance, ignoring the interacted and nested relationships among these causes.

Some researchers adopted different theories starting from economy of scale and transaction cost to the fit and attribution. The RBV and contingency theory which are most commonly used in systemic reviews of the export field depend on the study context. The RBV considers a firm as a unique parcel of valuable tangible and intangible resources, whereby these controllable resources and capabilities determine a firm's competitive advantage and performance in the export market (Katsikeas et al., 2000; Barney et al., 2001). Meanwhile, contingency theory argues that the relationship between the marketing strategy and export performance is contingent in a firm's internal and/or external context (Hultman et al., 2009). Consequently, the complementary theories (RBV and contingency theory) will explain the framework better than just one theory.

On the other hand, the main challenges faced by MNEs in Penang include the importance of firms' prior international experience in FDI entries where R&D and export decisions vary across MNEs, depending on the institutional context of both home and host countries (Lu et al., 2014). International experience or organizational capability absorbed from parent company along with the familiarity in the home country system are needed to avoid any risk in decision making, especially for export pricing. So this calls more investigate to in MNEs studies experience and how the effect of psychic distance as abroad definition to whole differences between home and the host country, Furthermore the engaging FDI and export for the nature of high technology products (like semiconductor) are very changeable in terms of features and processes from design to production from technology wise lead for more

investigation since the pricing for such products is complicated and need more experience and knowledge .

### **1.8 Research Questions**

The research questions of this study are as follows:

RQ1: Is the relationship between international experience and export pricing practices positive and significant?

RQ2: Is the relationship between psychic distance and export pricing practices positive and significant?

RQ3: Is the relationship between technological turbulence and export pricing practices positive and significant?

RQ4: Is the relationship between export pricing practices, export performance and its dimensions (EG, EPR and EI) positive and significant?

RQ5: Does competitive intensity positively and significantly moderate the relationship between export pricing practices, export performance and its dimensions (EG, EPR and EI)?

### **1.7 Research Objectives**

The main objective of this research is to examine the antecedents and consequences of EPP on the emerging markets, particularly of global production share hub of MNEs in Penang, Malaysia. More specifically, the study attempts to understand and answer the following objectives:

RO1: To examine the relationship between IE and EPP for the MNEs in global production hub of Penang.

RO2: To examine the relationship between psychic distance and EPP for the MNEs in global production hub of Penang .

RO3: To examine the relationship between technological turbulence and EPP for the MNEs in global production hub of Penang.

RO4: To examine the relationship between EPP, export performance and its dimensions (EG, EPR and EI) for the MNEs in global production hub of Penang.

RO5: To examine the effect of competitive intensity in the relationship between EPP, export performance and its dimensions (EG, EPR and EI) for the MNEs in global production hub of Penang.

## **1.9 Significance of the Study**

This study aims to develop a comprehensive model to test the antecedent, outcomes and moderating effects of competitive intensity in the relationship between EPP and export performance. The study also adds empirical and new exploratory knowledge to the export pricing literature besides providing additional insight for firms to improve their export pricing decisions in international business and marketing. The study contributes in terms of theoretical and managerial contributions:

### **1.9.1 Theoretical Contributions**

This research aims to address the research questions outlined in the previous section. Furthermore, the objectives of this study will add to the current knowledge especially on the links between EPP, export performance, the role of international experience (i.e. a firm's resource) as a supporting mechanism of export pricing and the external environmental circumstances (psychic distance and technological turbulences) under which the EPP is more/less beneficial for export performance. Some important theoretical contributions include:

First, this study introduces new important perspectives with regards to the link between EPP and export performance. This is the first study ever to examine the

profile of export pricing which MNEs should pursue in order to boost their performance. The existing studies in this study have focused essentially on SMEs with little attention on large firms (Tan & Sousa, 2011).

Second, existing studies have tested the antecedents of EPP in general without considering the large companies and by choosing international experience as an internal resource or capabilities to understand the EPP. Also, the psychic distance represents important variables in international business studies due to the differences between countries and individuals and how they able to reduces it and predicting well the business environments. last antecedents (the technological turbulences) the daily changes in technology use the study context make the research useful to explain the export products nature and the design and engineering procedures. Hence, this study examines the role of export pricing antecedents from different points of view.

Third, this research expands the current knowledge on the role of moderating variables (competitive intensity) as a critical contingency in the relationship between EPP and export performance. There are only a few studies which examined the moderating role of competitive intensity on the EPP-export performance link. Hence, a moderating variable is necessary since a direct relation is insufficient as it may lead to inconsistency and disagreement between scholars.

Fourth, the integration of multiple theories formulates more plausible hypotheses. Having said that, the RBV, OLT and CT have been integrated into various studies (Tand & Sousa, 2011; Hultman et al., 2011; Boso et al., 2013; Lisboa et al., 2013; Chen & Sosa, 2016). Such efforts to combine the three theories can provide a dyadic perspective of the determinants of export performance based on

firm-level resources and country-level institutions, which is particularly insightful in emerging economies.

### **1.9.2 Managerial Contributions**

The strong literature and theoretical background on EPP in MNEs provide marketing guidelines and business models in pricing decision-making processes for all management levels and on wealth returns for the country or firms to sustain amongst technological and competitive challenges.

This study is expected to impact leaders in the MNEs and policymakers in Penang, ways to incorporate these variables in strategies and future plans, especially in the financial and marketing budget. For example, if there are any bad or dropping results in the revenue or profitability share of MNEs we should consider the variables of our framework to detect the main reason for such results, is it for lack in international experience or uncontrollable factor such as technological changes or missing communication due the differences between the home and host country. Additionally, policymakers can also promote Malaysia as a good destination for MNE investments which can be useful for export performance measures.

This study also holds an important role in the field of international marketing. First, the findings can be applied within the context of the MNEs for well-known brands globally. Second, it provides a guideline to international marketers from MNEs with regards to the practice of export pricing strategy. Next, it allows the identification of key internal and external factors that are most likely to influence export pricing and international export performance of MNEs. Fourth, it presents a clear connection between the antecedents of export pricing and a firm's international experience, associated with competitive intensity presence. Thus, provides a measure for the marketers to determine the impacts of EPP on international markets. Lastly, it

develops a platform for international marketing scholars from developing countries who depend on exports to benchmark their studies in the future. It will lead to the development of an international and export pricing field.

### **1.10 Definitions of Key Terms**

The definitions of the key variables are as follows:

**Export pricing practices:** The price changes performed by exporters to adjust their offerings to fit foreign market conditions. Price changes include volume discounts, credit terms and compensation for exchange rate variations and special conditions for new products launches (Obadia, 2013; Leonidou, Katsikeas & Samiee, 2002; Myers et al., 2002; Piercy, Katsikeas & Cravens, 1997).

**Export Performance:** The extent to which a firm's objectives (including economic and strategic objectives) are achieved through the planning and execution of export marketing strategy (Sousa & Bradley, 2008; He et al., 2018). It is also defined by the amount of reaching to objects, while the company exports production to external market (Kavosgil & Zou, 1994).

**Export Intensity:** It represents the share of exports in total sales for a particular firm (Lopez-Rodriguez & Garcia-Rodriguez, 2005; Pla-Barber & Alegre, 2007; Mun, 2018).

**Export Growth:** The annual compound percentage change in the value of export between two periods (Myers et al., 2002; Sousa & Lages, 2011; Azar & Ciabuschi, 2017)

**Export Profitability:** It is the percentage of export sales from the total sales profit of a year of income (Lages et al., 2008; Myers et al., 2002; Gnizy et al., 2017).

**Competition Intensity:** The range number of competitors in one market, they have ability to differentiate products and pricing and to determine the intensity of



competition in international markets (Jaworski & Kohli, 1993; Lages et al., 2008; Morgan, Kaleka & Katsikeas, 2004).

**Psychic Distance:** The individual's perceived differences between home and a foreign country, climatic conditions, the purchasing power of customers, lifestyles, consumer preferences, literacy and education levels, language and cultural values, beliefs, attitudes and traditions (Bradley, 2005; Sousa & Lages, 2011; Sousa & Bradley, 2006).

**Technology Turbulence:** The rate of change in product and process technologies used to transform inputs into outputs caused by changes and interactions between the various environmental factors. It is due to the advances in technology and the confluence of computer, telecommunications and media industries (Kohli & Jaworski, 1990; Jaworski & Kohli, 1993; Mason, 2007).

**International Experience:** The degree to which the firm's management has acquired overseas experience, export experience and training in international business which enable MNEs to develop knowledge and capabilities to acquire legitimacy in the foreign market (Cavusgil & Zou, 1994; Lages et al., 2008; Oura, Zilber & Lopes, 2016; Lages, Jap & Griffith, 2008; Sousa & Bradley, 2008).

### **1.11 Organisation of the Thesis**

Chapter one presents the background and problem statements of the study. The research questions and objectives are presented along with an overview of research contributions and the operational definitions of variables. Chapter two reviews the literature on concepts of export pricing, presents a resource-based view and contingency as the theoretical foundation of the study. Based on the theoretical framework, an integrated screening of the literature was undertaken to guide the thesis in this chapter. Antecedents of EPP are presented focusing on the internal and

external environment of the firm with export performance. Chapter three presents the conceptual framework of the study which is a theoretical moderated model. Hypotheses were developed to establish the relationships between the independent variables and EPP alongside moderation variables and export performance. This chapter also presents the study context of the thesis. The reasons for targeting the electrical and electronics manufacturing industries in Malaysia are highlighted in this chapter. The second section of the chapter presents the research methodology including the population, sample frame, data collection and the research design. The survey process and the statistical techniques using PLS-SEM for data analysis are discussed. Chapter four presents the data analysis and findings of the quantitative study based on a survey key informants in Malaysia. Data collection methods, data analysis processes, an overview of the sample characteristics and common method bias are also presented and discussed. Chapter five discusses the development of theoretical and managerial implications, overall contribution and recommendations for the public policymakers. Finally, the conclusion and limitations of the study are presented with future research direction.