

INCIDENCE OF MARKETING ACTIVITIES IN MEDIUM-SIZED MANUFACTURING FIRMS IN INDONESIA: COMPARING EXPORT INTENDERS AND NON-EXPORT INTENDERS

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ABSTRACT

Export earnings are important to the nation's prosperity. Firms should be motivated to venture beyond the domestic market. The capability of performing the marketing function is one of the major catalysts that can spur firms to explore new markets beyond their national boundaries. This study attempts to gauge to what extent various aspects of marketing functions are regularly performed by Indonesian firms. The regularity of performing marketing activities is further investigated based on the firms' propensity to explore or not to explore the possibilities of exporting. The findings suggest that the responding firms are preoccupied with pricing activity. The export intenders are however different from their counterparts that wish to continue servicing domestic market only with respect to the regularity in attending to activities related to the promotion-mix, distribution-mix and product-mix. Policy makers should work closely with the industry players in enhancing their marketing know-how. Joint promotional activities and identification, establishing and maintaining good working relationships with channel members in overseas market are important factors that could facilitate the graduation of non exporters to be players in international markets.

Keywords: Marketing Activities, Export Intention, Medium Sized Firms, Manufacturing, Indonesia

1. INTRODUCTION

Marketing is an important function in the firm. Its contribution to the firm's performance has been widely acknowledged. Capabilities in implementing marketing activities are equally important in the export initiation process (Day and Wensley, 1988; Golden et al., 1995; Ellis, 2005). Exporting firms have been acknowledged to exhibit greater appreciation of marketing

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compared to non-exporting firms. Nevertheless it can be argued that even among non-exporting firms, there is a variation in the manner in which marketing is practiced. In line with the proposition put forward by Olson and Wiedersheim-Paul (1978) that a firm's motivation to export is even manifested in its pre-export behavior, this study will explore the characteristics and the incidence of performing various marketing activities among firms that are currently servicing the domestic market only. In addition, it will also test the hypothesis that export intenders differ from non-export intenders with respect to the incidence of performing various marketing activities.

2. LITERATURE REVIEW

Firms of similar characteristics and exposed to similar stimuli do not respond or behave in the same manner. This could be attributed to resource availability within the firm. In the resource-based literature, knowledge as a unique resource differs among firms. Firms with superior resources especially marketing knowledge are in a better position not only to exploit opportunities in the domestic market but also extend their business horizon beyond the national boundaries (Tsai and Eisingerich, 2010; Zou et al., 2003). A number of integrated reviews of export literature noted that firms' export involvement is triggered by factors other profit. Exporting firms are more likely to have a better management capabilities and competencies than non exporting firms (Ford and Leonidou, 1991; Aaby and Slater, 1989; Leonidou et al., 1998). As firms' sustainable competitive advantage evolves around marketing capabilities and know-how, it has been established that these factors explain firms' propensity to export and sustain its presence in the overseas markets (Ellis et al., 2010; Sousa et al., 2008).

Attention to marketing activities has been found to discriminate between export prone and non-export prone firms. Similar observations were noted among studies comparing firms that are at different stage of internationalization (Burton and Schlegelmilch, 1987; Lee and Yang, 1990; Leonidou and Katsikeas, 1996; Leonidou, Katsikeas and Samiee, 2002). Low export involvement firms, often referred to as reactive exporters, tend to behave in a passive manner in exploiting opportunities in overseas markets. In contrast those that adopted a proactive strategic orientation are more responsive to service international markets. The key differentiating factor is marketing capabilities (Moon and Lee, 1990; Katsikeas, 1996).

Alternative explanation to firms' export involvement can be traced to the contingency theory. Firms' behavior and consequent impact on export initiation is influenced by a host of environmental factors, particularly environmental hostility of the domestic market (Morgan, 1995). The availability of resources and other forms assistance, such as government incentives, may spur firms to solicit those resources and enhance their competencies thus enabling them to initiate export venture (Miesenbock, 1998; Jaffe and Pasternak, 1994; Robertson and Chetty, 2000; Yeoh and Jeong, 1995).

Evidence from newly industrializing and developing nations appear to be in agreement with the observation from the advanced industrialized nations with superior marketing capabilities being features of firms that have explored markets beyond their national boundaries. Such capabilities

are often acquired from their foreign business associates (Wortzel and Wortzel, 1981) and firms that are at the higher level of international involvement placed greater emphasis on building relationship with their foreign distributors, are serious in adapting product to suit market requirements and paid attention to the promotional aspects (Mohamad and Wheeler, 1997; Julian, 2003; Aulakh, Kotabe and Teegen, 2000; Shaw, 2000). As regards to findings on comparing exporting and non-exporting firms, the perceived competitive advantages in managing the marketing-mix did not differ between exporters and non-exporters in Singapore (Kau and Tan, 1989). While the Malaysian evidence showed that capability in managing product-mix differentiated the domestic and export-oriented firms (Hashim et. al., 2001), the emphasis on understanding international business culture, commitment to improve quality, regular visits and working closely with overseas distributor were the factors that differentiate innate and adoptive exporters (Mohamad and Che Razak, 2001). Pangarka (2008) studied SMEs in Singapore and stressed that these SMEs need to upgrade their capabilities in the areas of marketing if they to internationalize. Similar recommendations have been made to manufacturers from other newly industrializing nations that marketing is the key to sustainable competitive advantage if they are to survive in competitive global market. This study intends to shed some lights whether the Indonesian medium-sized firms are building their capabilities in marketing.

Table 1: Profile of Export Intenders and Non-export Intenders (N=63)

Demographic Variable	Categories	Export Intenders	Non-export Intenders	Total
Firm age	≤ 5 yr	5	1	6
	5 to 10 yrs	7	4	11
	11 to 15 yrs	11	4	15
	≥ 15 yrs	18	13	31
Number of Full Time Employee	51 to 99	21	14	35
	100 to 150	11	5	16
	151 to 199	4	2	6
	200 to 250	5	1	6
Asset* (Rp)	< 15 billion	23	19	42
	15 – 20 billion	4	2	6
	21 – 25 billion	6	0	6
	> 25 billion	8	1	9
Business Categories	Food, beverages, and tobacco.	4	11	15
	Textiles, garment, and leather	12	1	13
	Rattan, bamboo, furniture, and handcraft	4	4	8
	Non metallic and mineral Fabricated metal, transport equipment, machinery, and electronic	7	3	10
		14	3	17

Notes: *Exchange rates:RM1 = Rp.2,400

3. METHODOLOGY

The data for this study was derived from a larger study that investigated Indonesian medium-sized firms' marketing behavior (Puspowarsito, 2006). The respondents were medium-sized manufacturing companies listed in the Indonesia Manufacturing Directory released by Central Bureau Statistics (Biro Pusat Statistik) 2001. Of the 108 firms participating in the study, 63 firms currently serve the domestic market only. The response to item measuring their export intention showed that 41 firms are planning to venture into export market (classified as export intenders) and the remaining 22 firms are not interested to explore beyond domestic market (classified as non-export intenders). The study employed the survey method using a structured mail questionnaire addressed to owner/managers of the company. The profile of both groups of firm is presented in Table 1.

4. FINDINGS

4.1. *The Performance of Marketing Activities*

Table 2: Mean of Items and Overall Means on Product Activity

Items	Mean Value*
The formulation of brand names and branding policies	5.65
The planning of product packages (e.g., sizes, shapes, colors, designs)	5.30
The preparation of product warranties and the establishment of procedures for fulfilling warranties	4.78
The eliminations of products that do not satisfy costumers' desire	4.75
The modification of existing product	4.66
The development, testing, and introduction of new product	4.50
Overall Mean of Product Activity	4.77
Standard deviation	1.31

Notes: *Scale 1= not performed at all to 7 = performed extensively

The responses to 30 items measuring marketing activities were elicited on a 7-point scale ranging from "1 = not at all performed" to "7 = performed to large extent". These items were adapted from Akaah et. al. (1988). Table 2 to 5 displays the mean and standard deviation of the extent of marketing activities as practiced by the responding firms. The overall mean score for practicing marketing activities ranged from 4.50 to 5.33. Pricing activity (5.33) received the highest incidence of practice. This is followed by distribution activity (4.95), product activity (4.77), and promotion activity (4.50). When the mean value for each specific marketing activity was ranked, it was noted that activity related to the formulation of brand names and branding policies registered the high incidence of performance (mean value of 5.65). This was followed by the pricing activity - the establishment of conditions and terms of sales with a mean value of 5.45. The responding firms are obviously preoccupied with the pricing activities when the remaining four items under this category recorded a mean value of above 5.00 and were included in the top ten marketing activities that registered high incidence of performance.

Table 3: Mean of Items and Overall Means on Price Activity

Items	Mean Value*
The establishment of conditions and terms of sales	5.45
The actual setting prices	5.42
The determination of discounts for various categories of buyers	5.36
The formulation of policies and methods for setting prices	5.33
The analysis of competitors' price	5.23
Overall Mean of Price Activity	5.35
Standard deviation	1.23

Notes: *Scale 1 = not performed at all to 7 = performed extensively

Table 4: Mean of Items and Overall Means on Promotions Activity

Items	Mean Value*
The setting of promotional (e.g. advertising) objectives	4.89
The determination of major types of promotion	4.69
The selection and scheduling of advertising media	4.44
The development of advertising messages	4.21
The evaluation of advertising effectiveness	4.42
The recruitment and training of sales person	4.20
The formulation of compensation programs for sales personnel	4.48
The creation and development of sales territories	4.31
The planning and implementation of sales promotion efforts	4.53
The preparation and dissemination of publicity releases	4.83
Overall Mean of Promotion Activity	4.50
Standard deviation	1.55

Notes: *Scale 1 = not performed at all to 7 = performed extensively

Table 5: Mean of Items and Overall Means on Distribution Activity

Items	Mean Value*
The minimization of total distribution costs	5.42
The analysis of possible locations for wholesale and retail outlets	5.25
The implementation of inventory controls	5.02
The evaluation of various types of distribution channels	5.01
The design and implementation of an effective program for dealer relation	4.92
The analysis of transportation methods	4.69
The design of distribution channels	
The formulation and implementation of procedures for efficient product/ service handling	4.68
The establishment of distribution centers/outlets	4.67
Overall Mean of Distribution Activity	4.95
Standard deviation	1.19

Notes: *Scale 1 = not performed at all to 7 = performed extensively

4.2. Hypothesis Testing

Discriminant analysis was conducted for the main purpose of: i) determining whether significant relationship exist between the independent variables and the Export Intenders/Non Export Intenders, ii) testing the predictive accuracy of the model and, iii) determining which of the variable had the most influence on the intention to export or not to export. Discriminant analysis was used as the dependent variable in this case is a nominal variable 1=Intenders and 2 =Non-Intenders, regression is normally used when the dependent variable is continuous. The sample was divided randomly into two groups based on a 65–35 ratio (Hair et al., 2010) with the first group as the analysis sample and the second group as the holdout sample. The analysis sample was used for estimation whereas the holdout sample was used for validation. For further discussion related to discriminant analysis please to Ramayah et al. (2004; 2006; 2010).

Table 6: Hit Ratio for Cases Selected in the Analysis

Actual Group	No. of Cases	Predicted Group Membership	
		Export Intenders	Non Export Intenders
Have Intention	31	31 <i>100.0</i>	0 <i>0.00</i>
No Intention	15	5 <i>33.3</i>	10 <i>66.7</i>

Notes: Percentage of "grouped" cases correctly classified: 89.1%. Numbers in italics indicate the row percentages

Table 7: Hit Ratio For Cross Validation* (Leave One Out Classification)

Actual Group	No. of Cases	Predicted Group Membership	
		Export Intenders	Non Export Intenders
Have Intention	30	30 <i>96.8</i>	1 <i>3.2</i>
No Intention	15	7 <i>46.7</i>	8 <i>53.3</i>

Notes: Percentage of "grouped" cases correctly classified: 82.6%

* In cross validation, each case is classified by the functions derived from all cases other than that case. Numbers in italics indicate the row percentages.

Table 8: Hit Ratio for Cases in the Holdout Sample

Actual Group	No. of Cases	Predicted Group Membership	
		Export Intenders	Non Export Intenders
Have Intention	10	10 <i>100.0</i>	0 <i>0.00</i>
No Intention	7	4 <i>57.1</i>	3 <i>42.9</i>

Notes: Percentage of "grouped" cases correctly classified: 76.5%. Numbers in italics indicate the row percentages.

Table 9: Comparison of Goodness of Results

Measure	Value	Hit Ratio for Holdout Sample
Maximum Chance	58.8%	76.5%
Proportional Chance	51.5%	76.5%
Comparison with Hair et al. (2010) 1.25 times higher than chance		73.5%
Press Q Table Value		3.84
Calculated Value		4.76*

Notes: * $p < 0.05$

Table 10: Summary of Interpretive Measures for Discriminant Analysis

Independent Variable	Discriminant Loading (rank)	Discriminant Function	Univariate F Ratio
Product	0.551	0.551	6.615*
Price	-0.215	-0.706	1.468
Promotion	0.600	0.421	11.455**
Distribution	0.490	0.176	7.656**
Group Centroid for those who Have Intention		0.579	
Group Centroid for those with No Intention		-1.196	
Wilks Lambda		0.580**	
Canonical correlation		0.648	

Notes: * $p < 0.05$, ** $p < 0.01$

4.3. Calculation of Cutting Score and Press Q Statistics

In a 2 group discriminant function the cutting score will be used to classify the 2 groups uniquely. The cutting score is the score used for constructing the classification matrix. Optimal cutting score depends on sizes of groups. If equal, it is halfway between the two groups centroid. The formula is shown below:

Non		Intenders	
Cutting Score			
	Centroid 1 -1.196	Centroid 2 0.579	

Unequal Group:

$$Z_{cs} = \frac{N_A Z_B + N_B Z_A}{N_A + N_B}$$

Where: Z_{CS} = optimal cutting score between group A and B
 N_A = number of observations in group A
 N_B = number of observations in group B
 Z_A = centroid for Group A
 Z_B = centroid for Group B

Unequal Group:

$$Z_{cs} = \frac{31(-1.196) + 15(0.579)}{31 + 15} = -0.6107$$

Based on the above the cutting score is calculated as -0.6107, so the classification will be done based on this cutoff value. Any value below -0.6107 will be classified as non intenders whereas values greater than -0.6107 will be classified as intenders. Next we calculated the Q statistics based on the formula below:

$$\text{Press Q} = \frac{[N - (n \cdot k)]^2}{N(k - 1)}$$

Where: $Q \sim \chi^2$ with 1 degree of freedom

N = Total sample size

n = number of observations correctly classified

k = number of groups

For the holdout sample the Press Q is 4.76, and Press Q follows a χ^2 with 1 degree of freedom whereby the cut off value for significance at 1% is 6.83 and 5% is 3.84.

$$\text{Press Q} = \frac{[17 - (13 \cdot 2)]^2}{17(2 - 1)} = 4.76$$

As shown above, the predictive accuracy of the model for the analysis sample was 89.1%, the cross validation sample was 82.6% and the holdout sample was 76.5% respectively. The values in Table 9 indicate that the hit ratio of 76.5% exceeded both the maximum and proportional chance values. The hit ratio also exceeded the more stringent criteria which is more than 25% (Hair et al., 2010) thus providing support for the predictive accuracy of the model. The Press Q statistics of 4.76, was significant. Hence, the model investigated has good predictive power. With a canonical correlation of 0.648, it can be concluded that 42% (square of the canonical correlation) of the variance in the dependent variable was accounted for by this model. A summary of the univariate analysis indicating the influential variables to the acceptance/non-acceptance decision is presented in Table 10.

From Table 10 we can conclude that three variables are significant discriminators of those who intend to export from those who do not. Those with intention to export perform at higher level in terms of product, promotion and distribution activities. Promotion activities are the most significant discriminator followed by promotion and product.

5. DISCUSSION

A firm's motivation to export is often manifested in its pre-export behavior (Olson and Wiedersheim-Paul, 1978). This study investigates the incidence of marketing activities performed by firms currently servicing domestic market only. Nevertheless it is anticipated that those firms that are thinking of exporting will exhibit different emphasis on certain marketing activities as compared to those that do not aspire to venture into foreign market.

Among the 4Ps, the promotion-mix emerged as the most important marketing variable that discriminate the export intenders from non-export intenders. The commitment to service a particular market must be supported which ensures the smooth flow of information among parties involved. Promotion as a marketing-mix deals with communication. Communication is vital in maintaining the company's presence in a particular market and is perhaps one of the most important marketing activities when entering foreign market (Mohamad and Wheeler, 1997 Ellis et al., 2010; Tsai and Eisingerich, 2010). The market must be made aware of the availability and the benefits of the products. It appears that the export intenders are cognizant of the benefits of promotional activities which must be seen as an investment.

The product-mix is cardinal to the development of marketing strategy. It represents both the tangible and intangible evidence of the organisation to which the customer responds. The fact

that the performance of activities related to product-mix discriminate export intenders from non-export intenders shows that the former group of firms are building their capacity in this area. Product advantages are important in international venture. Successful companies recognized the need to differentiate their products. Firms from developing nations have been described as an exporter of production capacity (Wortzel and Wortzel, 1981). They lack the marketing knowledge to proactively develop the demand for their products in foreign markets. Thus unsolicited order appears to be the prime export stimulant. One of the major challenges facing exporters from developing nations is to produce quality products and differentiate the products on other aspects rather than low price (Osman and Wheeler, 1997; Shaw, 2000). Once this is achieved, the next crucial link to the export market is the distribution.

Distribution function is crucial when venturing into overseas market. More parties are involved in the physical handling of the goods as well as in ensuring that payment is received. A reliable foreign distributor must be identified and motivated to perform this important function in marketing. This is particularly important as small firms from developing nations do not have the resources to set up their own distribution networks abroad. The tasks such as collecting information and promotion will rest on the commitment of the overseas distributors (Louter, Ouwkerk and Bakker, 1991; Johansson, 2006). The export intenders are paying attention to the various activities involved in designing and implementing distribution policy.

The insignificance of price as a discriminating factor is probably indicating that activities encompassing price-mix received similar degree of attention by both groups of exporters. Firms from developing nations often compete on cost, hence price advantage. However survival in international markets depends on the ability to develop competitive advantage around products, service and other value-added activities.

5.1. Implications of the Study

The stage export development model postulates that experience in domestic market is a first step towards gradual expansion into international market. The accumulated experience and knowledge are resources that could be exploited to steer the firm to expand its market achieve growth objective (Johanson and Vahlne, 1997; Ford and Leonidou, 1991). The findings of this study lend support to the proposition that firm's readiness and motivation to export can be traced to its pre-export behavior. Those firms that show an inclination towards servicing customers in overseas market are performing various marketing activities at a higher level of incidence.

Marketing experience in the domestic market may a valuable asset but does not guarantee a smooth transition into international market. The process of moving the goods from the manufacturing plant to overseas markets entails a lot of issues which are not present in the domestic market. As the stage theory postulates that experience in the domestic market is the first step in the internationalization process, the findings of this study should shed some lights whether the Indonesian medium-sized firms are building their capabilities in marketing.

Managers should be cognizant that marketing know how could be enhanced by operating in international markets. Export intenders have exhibited marketing behavior that is consistent with research findings of studies that investigated exporters marketing behavior. The nature of competition and other unique requirements of foreign buyers call for strategic decision making. The learning process will contribute towards increasing the stock of knowledge in the company, and thus producing positive impacting on the nation's human capital development.

6. CONCLUDING REMARKS

Export earnings are vital to economic growth and well being of the society. Increasing the number firms that are willing to venture to foreign markets should be treated as an important agenda. The results of the study point to the possibility to upgrade export intenders to full fledge exporters. Policy makers and export promotion agencies should devise a program to assist export intenders to upgrade and adapt their marketing practices to the requirements of foreign buyers. In addition attitudinal issues and others skills must be addressed so that internal constraints and operational issues do not hinder internationalization process.

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