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AN INVESTIGATION OF THE INTERNATIONALISATION OF MALAY FIRMS IN MALAYSIA

ABDUL JUMAAT MAHAJAR
MUHAMMAD NASRI MD. HUSSAIN
School of Management
Universiti Utara Malaysia

ABSTRACT

This paper explores the impact of Qualitative and Quantitative Analyses Methods on the Internationalisation of Malay Firms in Malaysia. The study was conducted in 11 states and Federal Territory in West Malaysia between 1997-2000. In the quantitative analysis method that was adopted, the data gathered was obtained from 166 firms and in the qualitative analyses method, 48 firms were interviewed at the Director and Managerial level of small, medium and large firms. Both methods have their own strengths and weaknesses. The results using a quantitative approach showed that there are 15 barriers faced by Malay firms distracting them from engaging in international business, and the qualitative methods showed that 16 barriers. Having reviewed the two methods of analysis, it was felt that both quantitative and qualitative methods were appropriate for this study.

ABSTRAK

Kertas kerja ini meninjau kesan kaedah analisis kuantitatif dan kualitatif ke atas pengantarabangsaan firma Melayu di Malaysia. Kajian ini dijalankan ke atas 11 negeri dan Wilayah Persekutuan di Malaysia Barat antara tahun 1997-2000. Dalam penggunaan kaedah analisis kuantitatif, data yang dikumpul diperolehi daripada 166 firma dan dalam kaedah analisis kualitatif, 48 firma telah ditemuduga pada peringkat Pengarah dan staf pengurusan di kalangan firma bersaiz kecil, sederhana dan besar. Kedua-dua kaedah mempunyai kekuatan dan kelemahannya tersendiri. Keputusan analisis secara kuantitatif menunjukkan terdapat 15 halangan yang dihadapi oleh firma Melayu untuk terlibat dalam perniagaan antarabangsa, sementara melalui kaedah kualitatif pula terdapat 16 halangan. Setelah menilai kedua-dua kaedah tersebut, didapati kaedah kuantitatif dan kualitatif adalah sesuai digunakan dalam kajian ini.

INTRODUCTION

Exporting has been one of the fastest growing economic activities, consistently exceeding the rate of growth in world economic output over the past two decades (IMF 1995). A common objective of most countries is to find ways to increase exports. Increased exports may be achieved either by stimulating exporting firms to export more or by inducing non-exporters to start exporting. Reid (1981) defined export intention as the motivation, attitude, beliefs, and expectancy about export contribution to the firm's growth. According to Sharkey, Lim and Kim (1986) non-exporters are those who have never exported. Non-exporters have very little knowledge about the process of exporting and have no experience with obstacles to exporting. Marginal exporters refer to those who are exploring to export and may have filled some unsolicited orders. Marginal exporters have learned the basics of the export process, but their low level of commitment may also be coupled with frustration that lead to the perception of more export barriers. Active exporters have mastered the technicalities of exporting and have learned that exporting is an important mechanism for achieving organisational goals. Active exporters have learned to cope with perceived export barriers.

Ogram (1982) precisely defined firms who are exporting on a regular basis as those whose export over the last three years and have averaged one percent of their annual sales. A non-exporter is a firm not currently engaged in exporting. This includes a company that has never exported or one that has exported in the previous period but for one reason or another has decided to phase out its export activity. According to Czinkota, Rivoli and Ronkainen(1992) export development has been highly regarded by both public and corporate policy-makers, due mainly to the substantial macroeconomic and microeconomic benefits derived from external trade. From a macroeconomic perspective, exporting can enable national economies to enrich their foreign exchange reserves, provide employment, create backward and forward linkages, and ultimately, lead to a higher standard of living. Terpstra and Sarathy (1994) clarify in microeconomic terms, exporting can give individual firms a competitive advantage, improve their financial position, increase capacity utilisation, and raise technological standards. Westhead (1995) stated that differences in the percentage of firms engaging in exporting might be due to sample differences. These sample differences may reflect the importance of different factors associated with the propensity to export for example, age of the firm, principal industry activity, location, type, employment and sales turnover of the firm.

According to Young et al. (1989), exporting is considered the most common foreign market entry mode, particularly among small-to-medium sized enterprises, due to the minimal business risks, low resource commitment and high flexibility of action it offers. Bijmolt and Zwart (1994) clarified that most studies have compared characteristics and performance of exporters (those which export a proportion of their sales) and non-exporters (those which do not export any of their sales) and some researchers have explored the export intensity of firms. Hughes (1971) stated that the ultimate aim of export promotion programs is to increase exports in the future. To achieve this objective, firms must consider the foreign markets attractive and worthwhile pursuing. Export behaviour should be regarded as a process in which export is preceded by an evaluation stage. The evaluation results in an attitude toward future exports. Export experience will generally imply more and better information, and a revaluation of the market may take place resulting in a change in attitude. Since future exports are not directly observable, an agency interested in stimulating exports should analyse the formation of attitudes towards future export among companies.

Johanson and Vahlne (1977) concluded that the better the knowledge about a foreign market, the more valuable are the resources and the stronger is the commitment to the market. Managers, understanding of the influence on the firm of home market conditions, the structure and process of foreign markets, and the matrix linking national markets reduces cognitive limitations to internationalise. Globerman (1986) suggested that managers could benefit their shareholders by investing in countries whose currencies are likely to increase in value against the company's home currency. Globerman argued that the successful penetration of foreign markets requires management to identify the firm's competitive advantages as well as markets in which those advantages can be effectively exploited. It also requires management to identify the most cost-effective way to exploit the firm's competitive advantages in the target markets.

According to Gripsrud (1990), obstacles and opportunities may vary from one product to another even within the same industry. For example, differences in demand and tariffs may exist between products. Differences in taste across countries pose problems for exporters of any product moving into new markets. For example, the Japanese market or food products attach importance to fat content, size, colour and other attributes of particular product that sometimes do not coincide with requirements met in other markets. Gripsrud also hypothesised that the product categories of a firm will influence its export experience in a market and attitude towards future exports to a market. The larger the company, the more likely it is to have export experience and have more resources and are therefore more likely to be the first to enter a distant market that may require an additional effort. Barriers and opportunities are perceived differently between exporters with experience and those without such experience. Although export is important for the future growth of the company, Cooper and Kleinschmidt (1985), Kaynak and Stevenson (1982) and McConnell (1979) all agree that companies whose managers perceive large opportunities in the domestic market or have domestic supply problems are less likely to export. Reid (1981) states that in determining the export behaviour of a firm it is useful to consider two major areas: factors external to the firm and factors that are internal to the firm. Factors external to the firm include factors in the environment like tariffs and quotas, exchange rates, financing, government assistance, and competition (domestic and abroad). These are factors that the company usually considers as given and so they shape the context in which the company has to operate. Factors internal to the firm are those that are conceivably subject to management's discretion. Such factors relate to the characteristics of the firm and its products, as well as the attributes of its management.

OBJECTIVES

The objective of this study is to explore the impact of qualitative and quantitative analyses methods on the internationalisation of Malay firms in Malaysia. This study would determine the appropriate methods for the investigation of the barriers faced by Malay firms in exporting their business or to involve in international business.

PREVIOUS EMPIRICAL FINDINGS

A study by Alexandrides (1971) was one of the first to investigate export barriers empirically. His research showed that the major problems preventing firms from export initiation were the existence of keen competition abroad, followed by a lack of knowledge of exporting, insufficient understanding of export payment procedures and difficulties in locating foreign market. Alexandrides, (1971) views on the barriers of exporting were supported by Yaprak (1985). Yasprak's research concluded that non-exporters' perceived anxieties about export involvement were due to lack of information about exporting, limited foreign market contacts and personnel deficiencies. However the problems of current exporters appeared to be of an operational nature and related primarily to external variables, such as too much red tape, slow payment by foreign buyers and poor economic conditions in foreign markets.

Barker and Kaynak (1992) found that lack of foreign contacts, high initial investment, trade barriers, lack of information about exporting and insufficient personnel were the most important impediments for non-exporters. On the other hand, excessive red tape, trade barriers, transports difficulties, the absence of export incentives and lack of trained personnel for export operations were the most important barriers encountered by exporters, while Barrett and Wilkinson (1985) added that the inability to meet competitive prices of overseas suppliers and high freight costs involved in selling to foreign markets stood as particularly important hindrances to engage in international business. Bilkey (1978) further stated that high risk, insufficient financing sources, prohibitive or protective foreign government regulations, inadequate distribution channels, insufficient knowledge of marketing opportunities abroad, difficulties in understanding foreign business practices, conforming to foreign product standards / specification, difficulty in collecting money from foreign customers, obtaining inadequate representation in foreign markets and lack of foreign marketing connections to be the most often cited barriers to exporting. Bauerschmidt, Sullivan and Gillespie (1985) and Axinn (1988) determine those negative perceptions about risk and potential for export were substantial barriers to export. Earlier, Bilkey and Tesar (1977) hypothesised that perceived barriers may vary directly with export involvement in such decision areas as understanding foreign business practices, meeting different product standards, collecting receivables from foreign sources, and securing foreign contacts.

Bauerschmidt, Sullivan and Gillespie (1985) make a comprehensive analysis of barriers to export in the U.S. paper industry. The study covers mainly experienced exporters that were asked to rank the importance of potential barriers on a five-point scale ranging from not at all important to extremely important. The initial results indicated that a high value of the U.S. dollar relative to foreign currencies was perceived to be an extremely important barrier and high transportation costs were also considered important. Medium importance was attached to the risks involved in selling abroad, high foreign tariffs on imported products and to management emphasis on developing domestic markets. Potential barriers such as lack of capital for foreign expansion, lack of U.S. government assistance, competition from local and U.S. firms, lack of foreign channels of distribution, language and cultural differences were all considered to be of minor importance for these experienced exporters.

A study by Tseng and Yu (1991) focussing on Taiwanese exports to the European market, found that the most important barriers to trade were lack of foreign market information, limited trading knowledge of personnel and inappropriateness of price/quality for the needs of the market. Other less frequently cited reasons for not trading with European customers were low profit prospects, the existence of various financial constraints, the prevalence of fierce competition, perceived high levels of risk, as well as various legal constraints (either at home or in host countries). A study by Kau and Tan (1986) carried out in Singapore found that significant differences were observed between small and large firms in the rating of export problems such as in establishing foreign contacts, getting information about foreign markets, establishing distribution network, promoting products overseas and employing good exports sales personnel. Their study stated that small firms faced more difficulties to overcome the above export problems compared to large firms.

Similarly, Keng and Jiuan (1989) found that non-exporters' perceived anxiety about exporting related to management inertia, for example, by their preoccupation with the domestic market and the perception that their products were not marketable overseas, whereas exporters problems were primarily external or market-based in nature, for example, difficulties in matching foreign competitors prices, promoting products and establishing distribution networks overseas. A study by Kedia and Chhokar (1986) showed systematic differences between non-exporters and exporters regarding perceived export barriers. Non-exporters were found to be inhibited more by factors associated with knowledge of overseas markets, export procedures and foreign business practices, while marketing-related factors dominated the perceptions of exporters.

Ogram (1982) in a study of small manufacturing exporting and non-exporting firms on barriers to international business in Georgia, found that non-exporters generally perceived higher costs of exporting while exporters indicated that such costs were either the same or moderately higher compared to the domestic market. Yaprak (1985) based his findings of barriers to international business on the 84 small exporting and non-exporting firms. According to him, exporters do acquire export mechanics knowledge and capabilities during the initial stages of exporting. They nevertheless continue to need export marketing function knowledge such as in conducting marketing research or in estimating demand for export markets. Non-exporting firms appear to perceive the greatest barriers to exporting in the mechanics of anti-trust, tax, transactions, and market regulations, but not in the investment or managerial control requirements of export operations. Bilkey (1978) offers a list of the most frequently cited barriers that includes insufficient finances, foreign government restrictions, insufficient knowledge, lack of channels of distribution, and lack of foreign market connection. The researcher also indicates that non-exporters, since they have no export experience, perceive more barriers because of the lack of exposure to exporting and their lack of confidence that they can learn to overcome perceived barriers.

Cheong and Chong (1988) reconfirmed the conclusions of previous studies that perceptions of export barriers tend to differ between non-exporters and exporters. Specifically, it was found that non-exporters' perceptions were associated more with future involvement issues (relating mainly to information needs, foreign contacts and management policy), while exporters encountered problems, which were more closely connected with, export procedures (such as lack of working capital to finance exports, confusing product specifications and keen competition in foreign markets). Tesar and Tarleton (1982) mentioned the internal obstacles to export are capacity problem, lack of information, difficulties in getting honest distributors and no interest in exporting. Kaynak and Stevenson (1982), further suggested that external barriers to export are lack of demand from abroad, red tape, high cost, and trade impediments. Sullivan and Bauerschmidt (1990) measured the managers' perception on barriers and incentives in international business of the forest products industries in Austria, Finland, Sweden and West Germany. They used 30 barriers and 30 incentives in measuring the internationalisation of the firms. In their study, they found that high transportation costs to ship products to foreign markets, problems quoting price with fluctuating exchange rates and high value of currency relative to those in export markets were the major barriers for the firms to engage in international business.

METHODOLOGY

This study was based on small and medium-sized enterprises (SMEs) in the Malaysian manufacturing sector. The data was gathered from 166 small and medium-sized enterprises that export. An SME was defined as a firm with 300 or fewer employees and as one which is actively managed by its owner/s. These firms were selected from the 1998 Federation of Malaysian Manufacturer Directory.

Questionnaires consisting of 44 questions were sent to 214 SMEs located in the 11 states and Federal Territory in West Malaysia. Of the 214 questionnaires mailed, 166 firms responded (a response rate of 77.6%). In addition to the postal questionnaires, face-to-face interviews were also conducted with the top management in 48 of the 166 firms.

The purpose of the personal interview was to obtain an in-depth understanding of the problems faced by the exporting small and medium-sized enterprises in Malaysia. The interviews were held separately with Managing Directors, Chief Executive Officers, General Managers or persons designated as most knowledgeable in exporting activities of the firms. In the interviews, the discussion questions were focused on identifying problems relating to exporters.

Survey Questionnaire

The structured survey questionnaire used in this study consisted of three sections and 44 questions. The 14 questions in sections one and two were used to obtain information concerning the respondents' and the firms' characteristics. The remaining 30 structured questions in the third section were designed to measure barriers to exporting that the firms faced in the course of their operations. These 30 questions which were adapted from the work by Bauerchmidt et al. (1985) served as a basis for querying exporting problems as perceived by each respondent. The respondents were asked to rate each item on a five-point scale ranging from (1) strongly disagree to (5) strongly agree. The questionnaire was tested prior to mailing to the respondents. The coefficient alpha scores of the 30 measures of export activities ranged from 0.68 to 0.90.

Interview

In this approach the interviews were conducted to generate information specific to this study. The discussion questions were directed primarily at obtaining detailed information on the problems faced by the firms. The interviews, which lasted from one and a half to two hours, began by reviewing the firms' current export activities. Following this, the interviews focused on establishing the exporting problems that the firms confronted in the course of their operations. The determination of the exporting problems for each case was made on the basis of the views and suggestions of the respondents. The views and suggestions to the interviews are deliberated together with the postal survey findings.

Background of the Sample Firms

Firms from 21 industries were represented in this study. A majority of these firms (close to 50%) were from the food, plastic, electronic, wood, metal and chemical industries. Tables 1 and 2 provide the information on the location (by states) of the firms and the type of industries they represented.

Table 1
Firms by the 12 States

States	No. of Companies	Percentage
Selangor	50	30.1
Federal Territory	30	18.1
Johore	16	9.6
Perak	11	6.6
Kelantan	10	6.0
Perlis	9	5.4
Terengganu	9	5.4
Malacca	7	4.2
Pahang	6	3.6
Penang	6	3.6
Negeri Sembilan	6	3.6
Kedah	6	3.6
Total	**166**	**100.0**

Table 2
Firms by Industries

Type of Industry	No. of Firms	Percentage
Food	23	13.9
Plastic	18	10.8
Electronic	15	9.0
Wood	14	8.4
Chemical	10	6.0
Metal	10	6.0
Textile	8	4.8
Beverage	7	4.2
Steel	7	4.2
Automobile	6	3.6
Cement	6	3.6

Type of Industry	No. of Firms	Percentage
Leather	6	3.6
Paper	5	3.0
Rubber	5	3.0
Carbon	5	3.0
Fertilizer	5	3.0
Machinery	5	3.0
Pharmaceutical	4	2.4
Marble	3	1.8
Petroleum	3	1.8
Tobacco	1	0.6
Total	**166**	**100.0**

RESEARCH FINDINGS

Quantitative Analysis findings

Table 3 shows that there are 15 barriers that inhibit Malay entrepreneurs from engaging in international business. These barriers are:

1. Lack of foreign channel of distribution.
2. Difficulty to select a reliable distributor in the foreign country.
3. Risks involved in selling abroad.
4. Difficulty providing after sales services.
5. High cost of selling abroad.
6. Difficulty arranging a licensing or joint venture agreement with foreign firms.
7. High value of foreign currency in export markets.
8. Management emphasis on developing domestic markets.
9. Lack of capital to finance business expansion into foreign market.
10. Problem quoting price with fluctuating exchange rate.
11. High transportation costs to ship products to foreign markets.
12. Need to modify pricing and promotion policies according to the needs of foreign markets.
13. Need to adapt products to meet foreign customer preferences.
14. Lack of capacity dedicated to continuing supply of exports.
15. Difficulty gathering accurate information on foreign market.

Table 3
Summary of Frequency Distribution on Barrier the Variables of to International Business

Variables	Disagreed	Agreed	Undecided
BA1 - Differences in products usage in foreign country	48.8	30.3	22.9
BA2 - Language and cultural differences	46.0	25.3	18.7
BA3 - Lack of foreign channels of distribution	18.7	*54.3	26.5
BA4 - Difficult selecting a reliable distributor in the foreign country	24.1	18.7	57.2
BA5 - Differences in product specifications in foreign markets	30.7	*38.6	30.7
BA6 - Difficulty collecting payment from foreign customer	32.6	*37.3	30.1
BA7 - Unfamiliarity with government export assistance programs	32.5	20.5	47.0
BA8 - Foreign business practices are difficult to understand	39.1	29.0	31.9
BA9 - Confusing foreign import regulations and procedures	38.6	32.5	28.9
BA10 - Risks involved in selling abroad	21.7	*54.8	23.5
BA11 - Difficulty providing after sales service	28.9	*44.0	27.1
BA12 - High cost of selling abroad	21.7	*52.4	25.9
BA13 - Difficulty arranging a licensing or joint venture agreement with foreign firms	38.6	24.7	36.7
BA14 - Managerial indifferences toward value of exporting	29.5	*37.4	33.1
BA15 - Enforcement of high export tax by the home government	42.2	19.8	38.0
BA16 - Lack of government assistance in overcoming export barriers	35.5	24.7	39.8
BA17 - High value of foreign currency in export Markets	28.9	*54.2	16.9
BA18 - Management emphasis on developing domestic markets	39.8	*42.2	18.0
BA19 - Competition from local firms in foreign markets	38.6	32.5	28.9
BA20 - Lack of capital to finance business expansion into foreign market	28.3	*59.6	12.1
BA21 - Problem quoting price with fluctuating exchange rate	12.0	*56.2	21.8

Variables	Disagreed	Agreed	Undecided
BA22 - High transportation costs to ship products to foreign markets	67.5	18.7	13.8
BA23 - Need to modify pricing and promotion policies according to the condition of foreign market	6.6	21.7	71.1
BA24 - Need to adapt products to meet foreign customer preferences	10.8	19.9	69.3
BA25 - Lack of capacity dedicated to continuing supply of exports	29.5	*43.3	27.2
BA26 - Lack of tax incentive by the home government for companies that export	29.5	26.5	44.0
BA27 - Insufficient personnel to manage international trade activity	42.8	36.1	21.1
BA28 - Difficulty gathering accurate information on foreign market	23.5	29.5	47.0
BA29 - High foreign tariffs on imported products by foreign government	16.9	30.7	52.4
BA30 - Competition from firms of our country in foreign markets	51.9	18.0	30.1

(Note: BA refers to barrier or obstacle that prevented firms from engaging in international business.)

Table 4 shows there are 28 differences in terms of barriers to international business between exporting and domestic Malay firm.

Table 4
Differences between Exporting and Domestic Malay Firms in terms of Barriers to International Business

No	Variables	Exporter (%)	Domestic (%)
BA1	Differences in product usage in foreign markets	25.0	75.0
BA2	Language and cultural differences	42.9	57.1
BA3	Lack of foreign channels of distribution	27.6	72.4
BA4	Difficulty to selecting a reliable distributor in the foreign country	44.7	55.3
BA5	Differences in product specifications in foreign markets	43.8	56.2
BA6	Difficulty collecting payment from foreign customer	15.4	84.6
BA7	Unfamiliarity with government export assistance programs	22.2	77.8

No	Variables	Exporter (%)	Domestic (%)
BA8	Foreign business practices are difficult to understand	33.3	66.7
BA9	Confusing foreign import regulation and procedures	20.0	80.0
BA10	Risks involved in selling abroad	23.7	76.3
BA11	Difficulty providing after sale service	32.1	67.9
BA12	High cost of selling abroad	33.3	66.7
BA13	Difficulty arranging a licensing or joint venture agreement with foreign firms	26.9	73.1
BA14	Managerial indifferences toward value of exporting	23.1	76.9
BA15	Enforcement of high export tax by the home government	20.0	80.0
BA16	Lack of government assistance in overcoming export barriers	44.4	55.6
BA17	High value of foreign currency in export markets	51.6	48.4
BA18	Management emphasis on developing domestic markets	12.2	87.8
BA19	Competition from local firms in foreign markets	30.4	69.6
BA20	Lack of capital to finance expansion into foreign markets	31.6	68.4
BA21	Problem quoting price with fluctuating exchange rates	43.8	56.3
BA22	High transportation costs to ship products to foreign markets	36.4	63.6
BA23	Need to modify pricing and promotion policies according to the condition of foreign markets	41.0	59.0
BA24	Need to adapt products to meet foreign customer preferences	40.0	60.0
BA25	Lack of capacity dedicated to continue supply of exports	10.0	90.0
BA26	**Lack of tax incentive by the home government for companies that export**	**50.0***	**50.0***
BA27	**Insufficient personnel to manage international trade activity**	**50.0***	**50.0***
BA28	Difficulty gathering accurate information on foreign markets	52.2	47.8
BA29	High foreign tariffs on imported products by foreign governments	57.1	42.9
BA30	Competition from firms of our country in foreign markets	46.7	53.3

There are only 2 similarities in terms of barriers existing between exporting and domestic firms such as:
1. BA26 – Difficulty gathering accurate information on foreign markets.
2. BA27 – Insufficient personnel to manage international trade activities.

Table 6

Summary of Chi-square (x^2), Phi Coefficient and Cramer V of Demographic Variables of the Decision-Maker and their Correlation with Export

Variables	Chi-square (Significant)	Phi-Correlation (Relationship)	CramerV (Relationship)
1. Sex	0.024 (S)	0.875 (SR)	0.875 (SR)
2. Age	0.024(S)	0.874 (SR)	0.874 (SR)
3. Marital Status	0.030(S)	0.705 (SR)	0.705 (SR)
4. Qualification	0.028(S)	0.914 (VSR)	0.914 (VSR)
5. Organisation	0.032(S)	0.822 (SR)	0.822 (SR)
6. Length of Service	0.041(S)	0.872 (SR)	0.872 (SR)
7. Salary	0.774 (NS)	0.104 (VWR)	0.104 (VWR)
8. Training for the Past Three Year	0.028 (S)	0.749 (SR)	0.749 (SR)
9. Type of Training Undergone	0.034(S)	0.889 (SR)	0.889 (SR)
10. Working Experience	0.032(S)	0.819 (SR)	0.819 (SR)
11. Number of Organisations Worked in Before Joining The Organisation	0.110(NS)	0.233 (WR)	0.233 (WR)
12. The Nature of Companies Worked Before Number of Years Working With International Business Firms	0.574(NS)	0.089 (VWR)	0.089(VWR)
13. Number of Year Working With International Business Firms	0.032(S)	0.862 (SR)	0.862(SR)

Note:
S = Significant at $p<0.05$
NS = Non Significant
VSR = Very Strong Relationship (0.90 – 1.00)
SR = Strong Relationship (0.70 – 0.89)
MR = Modest Relationship (0.40 – 0.69)
WR = Weak Relationship (0.20 – 0.39)
VWR = Very Weak Relationship (0.19 and below)

This study also at tempted to examine the relationship between the demographic characteristics of the decision makers and the exporting activities of the firms. The results of the Chi-square test indicated there are significant relationships between sex, age, marital status, qualification, organisation, length of service, training for the past three years, types of training undergone, working experience and number of years working with international business firms and exports. The Phi-correlation and Cramer V analyses show the strength of the relationship between exporting activities and the demographic characteristics of the decision makers (see Table 6, column 2 and 3).

In addition to the Chi-square, Phi-coefficient and Cramer V analyses, this study also used multiple regression analysis to determine the relationships between demographic characteristics of exporting firms and exports.

Table 7

Summary of Regression Results – The Effects of Demographic Variables of Exporting and Domestic Firms on Export

No	Variables	Exporting Firms
1	Firm Age	0.037
2	Location of the Company	0.036
3	Manufacturing Firms	0.045
4	Service Firms	0.429
5	Type of products produced	0.256
6	Present Number of Employees	0.008
7	Average Sales Volume for the Past 3 Years	0.093
8	Average Annual Increase in Total Sales for the Past 3 Years	0.045
9	Average Annual After-Tax Return on Total Investment for the Past 3 Years	0.926

Notes:
S = Significant at $p<0.05$
E = Effect
NE = No Effect

The results of the multiple regression analysis shown in Table 7 suggested that firm age, location of company, manufacturing firms, present number of employees and average annual increase in total sales for the past three years can affect the exporting activities of exporting firms.

Qualitative Analysis Findings

In terms of barriers to export, there were differences in terms of opinions and views between Malay firms engaged in international and domestic business. The managing director of one of the export firms shared his personal experience on a very significant aspect of overseas trading–namely the complexity of paper work involved in international trade transaction. According to him, success in selling to highly competitive world markets calls for maximum efficiency not only in producing and marketing exportable products but also in handling all the related paper work at the different stages in the movement and transit of goods. Unlike domestic trade, with its simple buyer-carrier-seller relationships, selling abroad is burdened with a complex set of arrangements among various parties. In addition to buyer and seller, there are a large number of institutions, which have an interest in trade transactions. These include government agencies, banks, insurance underwriters, forwarding agents, carriers of several modes and others. Each of these institutions designed its own forms and documents to record the information it required about each transaction and to spell out the legal rights and duties of the parties involved.

According to the respondents in the programme of interviews, other barriers faced by the exporters are:

1. Severe tariff and non-tariff restrictions imposed by developed countries.
2. Low stocks kept by importers and manufacturers due to high interest rate.
3. Irregular and inadequate shipping services to new markets and frequent increase in freight rates.
4. Lack of knowledge by Malay exporters on market and consumer requirement, import regulation, and foreign exchange requirements in certain countries especially in new markets such as in Africa, Eastern Europe and Latin America.
5. The inability of many local manufactured goods to compete internationally both in terms of price and quality due to outdated technology and poor marketing.

According to Malay entrepreneurs engaged solely in domestic business, the ten major barriers encountered by these firms, which distracted them from engaging in international business, were:

1. *Lack of capital*

   Executive directors of Malay firms stated that capital funds remain one of the most challenging problems facing Malay firms, especially small businesses. Malay firms have become accustomed to a chronic shortage of capital when considering expanding their business through international business. Many lending institutions have developed a built-in allergy to lend money to expand firms, and especially to small firms. Therefore efforts should be intensified in the generation of an extensive capital resources base for Malay business. More facilities should be created for loans for operating expenses, and particularly, long-term investment loans.

2. *Differences in Product Usage in Foreign Market*

   The majority of Malay firms were not confident to export their products to foreign countries, due to differences in product usage in foreign markets. They were afraid that they would face more risk by exporting products that are unacceptable to the foreign consumer due to differences in product usage.

3. *Lack of Foreign Channels of Distribution*

In order to access new markets in foreign countries, good channels of distribution are very important. The Malay domestic firms in Malaysia are not interested to export their products because of the problems that they would face in selecting and choosing an honest distributor who could successfully market and distribute their products. It is better for them to solely engage in domestic markets, where they know the markets very well and the reliable distributors, whom they can depend on and trust.

4. *Differences in Product Specifications in Foreign Markets*

The Malay domestic firms stated that it is a risky business to export their products to foreign countries due to differences in product specification. Different customers would use different products in terms of size. For example, the Malay garment firms stated that they will not export their products because their product would not be accepted by the customers especially in the western countries due to the dissimilarities in terms of size of shirts and trousers that are being exported to foreign countries. Their products will only be suitable for the size of Asian customers and they do not have any intention to modify their products to suit the size of western customers.

5. *Difficulty Collecting Payment from Foreign Customers*

It is much easier to conduct business in our own country rather than engage in international business because it is easier to collect payment from domestic customers compared to foreign customers. Exporting is a very good business but there might be problems in collecting payment from foreign customer. To minimise the risk, domestic firms were more prone to conduct business in local markets rather than engage in international business.

6. *Foreign Business Practices are Difficult to Understand*

The governments of different countries have different regulations and laws regarding import and export business. It is very difficult to understand the requirement of business procedures and regulations in foreign countries. It takes time to think and study about the foreign export or import regulations. It is much better to concentrate on domestic business because it is much easier to control and plan the business.

7. *Risks Involved in Selling Abroad*

There would be so much risk in selling products in foreign countries in terms of marketing, planning and controlling the sales of the products. Many problems might arise such as high export duties imposed by foreign governments, products not according to specifications, payment difficulties from import firms and others. It is better to concentrate in domestic business because it is less risky.

8. *Difficulty in Providing After Sales Service*

In order for products to be accepted by customers, excellent after sales service should be provided, in case of any problems arising from the use of the products after it had been purchased. To provide an efficient after sales service in foreign markets is very difficult. Therefore, to minimise the loss of sales in foreign markets, it is wise to sell our products in the domestic markets.

9. *High Cost of Selling Abroad*

High cost of capital is needed to export products to foreign countries. There are a lot of expenses incurred before exporting the products such as freight charges, freight insurance, custom duties and others. Domestic firms are afraid that the cost of expenses would be more than the income they would get from exporting the products.

10. *Difficulty Arranging a Licensing or Joint Venture Agreement with Foreign Firms*

The managing directors of domestic firms felt that it is better to conduct international business by joint venture agreements or licensing. However, they also felt that since they are very new to international business, the foreign firms might not be interested to conduct joint venture or licensing agreements with them.

CONCLUSION

This study attempted to address research issues by adopting both quantitative and qualitative methods in investigating the internationalisation of Malay firms. The results of the present study indicate that internationalisation presents various barriers to Malay firms. Based on the findings of this study, it can be concluded that the major barriers were lack of capital to finance export expansion into foreign markets, lack of foreign channels of distribution, difficulties to select a reliable distributor in a foreign country, risks involved in selling abroad and difficulties in providing after sales services.

Finally, having identified and raised the aforementioned issues, it is hoped that this study would help us to better understand the various factors that can influence firms to engage in international business. Financial institutions and government agencies should play active roles in encouraging and assisting Malay firms to overcome the barriers by offering financial assistance, international business knowledge and professional advice to change the negative attitude of some Malay firms towards international business.

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