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Achieving Export Performance: Contribution of Relational Elements

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Abstract

In international operations relational elements can be useful through network ties to exploit global market opportunities and enhance relationships with foreign partners. Relational elements are known as irregular interactions of weak ties that obtain new information and to access to the various information sources. It also is as strong ties that characterize by regular and stronger social interactions, where can perceive more reliable information and transfer knowledge more effective for experiential learning. This exploratory study attempts to correlation between relational elements and export performance among Malaysian firms exporting to the nations around the Persian Gulf. The findings indicate that trust is ranked highest and is followed by favour and friendship. Trust is positively and significantly correlated with economic and non-economic measures of export performance. Favour is positively related with export performance (economic and non-economic) while it is significantly correlated with only two dimensions of non-economic measures of export performance. Friendship is positively related with export performance (economic and non-economic) and significantly correlated with one dimension of economic measures and one dimension of non-economic measures of export performance.
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Keywords: Relational Elements, Export Performance, Trust, Friendship, Favour.

1. Introduction

The relational elements of social networks in Asian countries involve a social network of interpersonal relationships that benefit valuable social processes, such as transmission of knowledge and creation of new opportunities. Some dimensions of relational elements, such

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as trust, friendship and favour, are important in business in Asian countries (Hutchings & Weir, 2006a). Relationship in firms in Asian countries is much more strongly than western firms. International and exporting field has been faced with increasing focus in buyer-seller relationships and international partnering (Hitt, Lee and Yucel, 2002; Cavusgil, 1998; Phan, Styles, and Patterson, 2005). This paper presents the finding of a survey on the perceived relational elements of social network such as trust, friendship and favour among Malaysian manufacturing firms exporting to the nations around the Persian Gulf. Based on Bontis, Keow, and Richardson, (2000), There are two major imposes towards the Malaysian business comprise of rapid rate of technological change and growing industrialization and knowledge-based business environment that needs a new ideal such as impalpable assets that can figure out as relational elements. The current emphasis of the Malaysian government is to diversify of the export market. There would be a joint effort through the Malaysian Industrial Development authority and other countries for Investment and technical assistance to improve cooperation specially West Asian markets, particularly the nations surrounding the Persian Gulf that Malaysia have long relationships with these countries (Jeshurun, 2007). This paper suggests the finding of a study on the perceived relational elements among Malaysian firms exporting to the nations around the Persian Gulf. This study brings some new perception that can help increasing firm's export performance. The next section presents previous literature of relational elements of social network that followed by research objective, finding of the study with explanation of general characteristics and demographic exporting of the respondents, mean value of the items, correlations of variables, discussion and conclusion of the study at the end.

2. Literature Review

According to the social network theory, connections and personal ties play an important role in the exchange of valuable information. It is the bridging ties that link people in various social groups to identify the foreign market opportunities that facilitate exchanges and market transactions with foreign mediators (Ellis & Pecotich, 2001; Harris & Wheeler, 2005). There are various aspects of social networks of entrepreneurs including structural, relational and resources, affect a firm's financial performance, such as revenue and profit margin. Batjargal added the resource aspect as a third aspect of social networks in addition to the structural and relational aspects of social networks. This study utilizes of relational elements of social network. It has a history of interactions to result mutual expectation that defined as the quality of actors' personal relations affect the extent of economic actions (Granovetter 1990; Batjargal, 2003). Relational aspect's dimensions such as tie strength comprise strong and weak ties, relational trust include relational embeddedness of mutual ties (Burt 1997; Tsai & Ghoshal 1998; Batjargal, 2003). Based on Hutching & Weir (2006b) Family or friendship, trust and favour is important in business in Asian countries especially in Islamic countries. There have been empirical studies to join relational variables to export performance (Rosson and Ford, 1982; Styles and Ambler, 2000). Leonidou and Kaleka, (1998) investigated differences in buyer-seller relationships to the firm's level of export performance. They found trust in the relationship was also strongly connected with export

involvement. Ambler, Styles and Xiucum (1999) found that prior personal friendships have a positive effect on export sales performance. They have also stated that Asian business managers believe that personal relationships ties are as essential first steps to business(Tseng, 2011). The study of Galunic and Moran, (1999) illustrated the relational trust increases managerial sales and innovation performance. Zaheer, McEvily, and Perrone (1998) demonstrated trust decrease negotiating costs in business and enhance business performance. Adler, (2001), suggested tendency in interring firm relationships is creating trust because business is important for partners to create and support competitive benefits. Hwang (1987) states that favour are a set of social norms to manage well with other people that emphasize the value of personal agreement and social order among persons situated in structured relationships. Based on Hutchings and Weir, (2006a) favour refers to normative standard for regulating social exchange and social mechanism that an individual can attempt for worthwhile resources through a stable and structured social construction. Hafiez (2004) in a survey of Malaysian firms exporting to Arab speaking nations indicated that trust is positively and significantly related to strategic and financial export performance. Furthermore, Hutchings and Weir (2006a) in their study about some lessons for international Western managers in several countries in the Middle East (Algeria, Jordan, Libya, Palestine & Yemen) and in China (Shanghai, Beijing, Suzhou and Wuxi) found that trust, family or friendship, and favour are fundamental to the traditional models of networking. They also suggested that these dimensions have an important role in business in Asian countries.

3. Research Objective

The aim of this paper is to better understanding of relational elements in exporting firms from developing counties. This study presents the results of a survey on the relational elements of Malaysian firms exporting to the nations around the Persian Gulf and its relationship to performance.

4. Methodology

The data was collected using highly structured survey questionnaire and was addressed to top management. The conceptualization and instrument for relational elements is proposed as a dimensional construct that includes three dimensions, namely, friendship, favour and trust. Based on evidence from several countries in the Middle East in a study by Hutchings and Weir (2006a), it was found that family or friendship, favour and trust are important elements in relational social networks, which are vital in business. The instrument for relational elements comprises 13 items of which three items for measuring the friendship were adapted from Kale et al. (2000), and Wu (2008). This is followed by five items for measuring favour, which was adapted from Leung and Wong (2001) and five items for measuring trust; questions 1, 2 and 3 were adapted from Styles et al. (2008), and Yau et al. (2000), and questions 4 and 5 were adopted from Wu (2008). The respondents assessment of the relational elements consist of 13 items, which are scaled on a 5 - point Likert scale ranging from 1= strongly disagree, 2= disagree, 3= neutral, 4= agree, to 5= strongly agree. In

this study, there are two principle ways of measuring export performance: economic measures such as export sales growth and export profitability growth; non-economic measures such as product and market elements (Cavusgil and Zou, 1994; Katsikeas, Leonidou, and Morgan, 2000). The response to economic measures are solicited a 5-point scale from 1 = far below expectation to 5 = far above expectation. The response to non-economic measures are also solicited on a 5-point scale ranging from 1 = not at all satisfied to 5 = very much satisfied.

5. Finding

5.1. Firm Profile

Table 1 tabulates the characteristics or profile of Malaysian manufacturing firms exporting to the nations around the Persian Gulf. Less than half of the firms, approximately 48.3 per cent, indicated that the United Arab Emirates is their significant export market followed by Saudi Arabia with a total of 16.7 per cent, Iran with a total of 15 per cent, Kuwait 8.3 per cent, Qatar 5 per cent, Bahrain 3.3 per cent and Oman with a total of 3.3 per cent. In terms of exporting experience in a significant export market, firms that were found to have operated for less than 5 years were 40 per cent, between 6 to 10 years, 40.8 per cent, and more than 10 years, 19.2 per cent. Furthermore, table 4.2 shows that about 20.8 per cent of the firm's exports to the significant market is from the food, beverages and tobacco industry. The table also shows that 15.8 per cent comprises iron, steel and metal products, 13.3 per cent rubber and plastic products, chemicals and chemical products include 9.2 per cent, electronics, electrical machinery and appliances 6.7 per cent, wood products 6.7 per cent, non-metallic mineral products are each 4.2 per cent. Textiles, apparel and footwear consist of 4.2 per cent, transport equipment includes 2.5 per cent, petroleum products consist of 1.7 per cent and 15.0 per cent comprises other products. The responding firms with 150 employees and less were classified as small and medium enterprises (SMEs) while those with more than 150 employees were classified as large firms (FMM, 2010). By using this classification criterion, it can be concluded that in this study, 43.3 per cent are SMEs while 56.7 per cent are large firms.

Table 1- General Characteristics and Demographic Exporting of the respondents (n=120)

Demographic variables	Categories	Frequency	Percentage (%)
Targeted markets	Iran	18	15.0
	Bahrain	4	3.3
	Kuwait	10	8.3
	Oman	4	3.3
	Qatar	6	5.0
	Saudi Arabia	20	16.7
	United Arab Emirate	58	48.3

Export experience in targeted market	5 and Less than 5	48	40.0
	6-10	49	40.8
	More than 10	23	19.2
Type of products	Electronics, Electrical machinery and appliances	8	6.7
	Textiles, Apparel and Footwear	5	4.2
	Wood products	8	6.7
	Rubber and Plastic products	16	13.3
	Food, Beverages and Tobacco	25	20.8
	Petroleum products	2	1.7
	Chemicals and Chemical products	11	9.2
	Non-Metallic Mineral products	5	4.2
	Iron, Steel and Metal products	19	15.8
	Transport Equipment	3	2.5
	Other Manufactured products	18	15.0
Firm Size	Small and Medium size	52	43.3
	Large size	68	56.7

5.2. Relational Elements

Table 2, 3 and 4 show the mean and standard deviation the extent of relational elements by manufacturing exporting firms in Malaysia. The overall mean values score for relational elements ranking from trust (3.64) neither agree nor disagree and the pattern suggests that "trustworthy on important business issues" (3.82), "trust this importer in dealing with business decisions" (3.78), and "Promises made by this importer are reliable" (3.72) respectively, registered relatively higher mean value than other mean values. These mean values are "our business partner never act opportunistically" (3.48) and "we never worry that our business partner will take advantage of us" (3.42). This is followed by the overall mean values score for relational elements ranking from favour (3.46), neither agree nor disagree and the pattern suggests that "Top management in our firm make great efforts in building personal ties with top management of the importer firm" (3.70), and "Top management in our firm gives extra high quality services or product to top management of the importer firm" (3.63) respectively, registered relatively higher mean value than other mean values. These mean values are "Top management in our firm spends extra time on following this importer's project" (3.45), "Top management in our firm offer extra knowledge and skills to top management of the importer firm" (3.42). This is followed by "Top management in our firm offer extra human resources to advance co-operation with top management of the importer firm" (3.12). Regarding to the overall mean values score for relational elements ranking from friendship (3.71), neither agree nor disagree and the pattern suggests that "good working relationship with this importer" (4.01), and "close personal interaction with this importer" (3.77) registered relatively higher mean values than "the relationship is characterized by personal friendship" (3.35).

Table 2 Mean of Items and overall means and standard deviation on Trust

Items	Mean Value
1- Promises made by this importer are reliable.	3.72
2- This importer is trustworthy on important business issues.	3.82
3- We trust this importer in dealing with business decisions.	3.78
4- We never worry that our business partner will take advantage of us	3.42
5- Our business partner never act opportunistically	3.48
Overall Mean of trust	3.64
Standard Deviation	0.76

A five-point scale was used: 1 = strongly disagree, 3 = neither agree nor disagree, and 5 = strongly agree

Table 3 Mean of Items and overall means and standard deviation on Favour

Items	Mean Value
1- Top management in our firm make great efforts in building personal ties with top management of the importer firm.	3.70
2- Top management in our firm spends extra time on following this importer's project.	3.45
3- Top management in our firm gives extra high quality services or product to top management of the importer firm.	3.63
4- Top management in our firm offer extra human resources to advance co-operation with top management of the importer firm.	3.12
5- Top management in our firm offer extra knowledge and skills to top management of the importer firm.	3.42
Overall Mean of favour	3.46
Standard Deviation	0.87

A five-point scale was used: 1 = strongly disagree, 3 = neither agree nor disagree, and 5 = strongly agree

Table 4 Mean of Items and overall means and standard deviation on Friendship

Items	Mean Value
1- We have close personal interaction with this importer	3.77
2- The relationship is characterized by personal friendship	3.35
3- We have a good working relationship with this importer	4.01
Overall Mean of friendship	3.71
Standard Deviation	0.91

A five-point scale was used: 1 = strongly disagree, 3 = neither agree nor disagree, and 5 = strongly agree

5.3. Export Performance

Table 5 shows the mean values and standard deviation of export performance. The overall mean values score for export performance in economic measure (3.18) as expected and the pattern suggests that export sales growth (3.34) registered relatively higher mean value than the export profitability growth (3.02).

Table 5 Mean value of export performance in Economic Measures

Items	Mean Value
Export sales growth	3.34
Export profitability growth	3.02
Overall Mean of Export Performance in Economic Measures	3.18
Standard Deviation	0.73

A five-point scale was used: 1 = Far below Expectation, 3 = As Expected and 5 = Far above Expectation

Table 6 indicates the overall mean value of export performance in non-economic measure (3.27) as satisfied and the pattern suggest that "expanding the size of their export market" (3.40) and "increasing the number of new export markets" (3.25) registered relatively higher mean value than "introduction of more new products" (3.15).

Table 6 Mean value of export performance in Non-economic Measures

Items	Mean Value
Introduction of more new products	3.15
Expanding the size of our export market	3.40
Increasing the number of new export markets	3.25
Overall Mean of Export Performance in Non-Economic Measures	3.27
Standard Deviation	0.74

A five-point scale was used: 1 = Not at all Satisfied, 3 = As Satisfied and 5 = Very Much Satisfied

5.4. Pearson's Correlation

In order to test the relationships among variables of the study, the Pearson's correlation analysis was performed. The results of correlations summarized in (Table 7). This Table suggested that trust is positively and significantly correlated with all dimensions of export performance namely, export sales growth ($r = .26$, $p < .01$), export profitability growth ($r = .28$, $p < .01$), introduction of more new products ($r = .30$, $p < .01$), expanding the size of export market ($r = .40$, $p < .01$) and increasing number of new export markets ($r = .19$, $p < .05$). As the Table 7 shows favour is also positively related with all dimensions of export performance, while it is significantly correlated with only two dimensions of non-economic measures of export performance namely, introduction of more new product ($r = .23$, $p < .05$)

and expanding the size of export market (r = .21, p < .05). Based on this Table, another dimension of relational elements namely friendship is positively related with all dimensions of export performance, while it is significantly correlated with export sales growth (r = .27, p < .01) and expanding the size of export market (r = .25, p < .01), but not significantly relationship with other dimensions of export performance.

Table 7 Pearson's Correlation between Variables

Variables	Mean	S.D.	Export Sales Growth	Export Profitability Growth	Introduction of more new product	Expanding the size of export market	Increasing number of new export markets
Trust	3.64	.76	.26**	.28**	.30**	.40**	.19*
Favour	3.46	.87	.12	.10	.23*	.21*	.11
Friendship	3.71	.91	.27**	.11	.14	.25**	.11

**Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

6. Discussion and Conclusion

Based on results of correlation analysis of this study, trust, one of the relational elements of social network is important factor for Malaysian exporter in the relationship with targeted markets that it is need to consider it. On the other hand, they have to attempt for strengthen of other relational elements of social network such as favour and friendship to enhance of their cooperation with these markets. Therefore according to the results, the Malaysian exporters can be successful in their performance when their importer is trustworthy on important business issues and their promises are reliable and also when they trust this importer in dealing with business decisions. Moreover, Malaysian exporters by making great efforts in building personal ties, giving extra high quality services or product to top management of the importer firm and having a good working relationship with them can improve their performance. They can also increase export sales growth and expand size of export market, since in business dealing economic and non-economic objectives are equally important. The relational activities in trust between managements are associated with the achievement of all dimensions of economic and non-economic export performance. This relational element must be enhance other elements of relational elements namely favour and friendship if expanding the size of their export market is the prime objective. Favour and friendship between managers is associated with the achievement of two of the five dimensions of export performance. However success in export sales growth and introduction of more new product would not be possible without the strengths in relational activities of favour and friendship. The positive and significant correlation between trust and export performance in the present study appears to concur with Hafiez (2004) who found that trust is significantly and positively correlated with three dimensions of export performance, namely strategic performance, financial performance as well as satisfaction with export venture. The purpose of this study is to identify relational elements to export performance of

Malaysian exporters in manufacturing sectors. This initial effort is expected to provide input into developing a more comprehension measurement of relational elements specially trust that is crucial in international markets and also reinforcement of favour and friendship and other relational elements in the context of Malaysia.

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