AN ANALYSIS OF FACTORS THAT INHIBIT SMALL AND MEDIUM ENTERPRISES FROM EXPORTING THEIR PRODUCTS TO SOUTH AFRICA'S MOST IMPORTANT TRADING PARTNERS

BY

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PROMOTER: DR T S HUTTON

OCTOBER 2003

PORT ELIZABETH
DECLARATION

I declare that:

AN ANALYSIS OF FACTORS THAT INHIBIT SMALL AND MEDIUM ENTERPRISES FROM EXPORTING THEIR PRODUCTS TO SOUTH AFRICA’S MOST IMPORTANT TRADING PARTNERS

is my own work and all sources used or quoted have been indicated and acknowledged by means of complete references. I have not previously submitted this thesis for a degree at another university or technikon.

3 October 2003

FF MULLER

DATE
ACKNOWLEDGEMENTS

Grateful thanks are extended to all those individuals and organisations, which contributed to the successful completion of this study. In particular, the assistance of the following is acknowledged:

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- The respondents of the study who supplied the empirical data.

- My parents and parents-in-law for their prayers.

- My wife and best friend, Annemarie, for her encouragement, patience, effort, and cool-headed approach during the course.

- Jesus Christ my Saviour
The research problem addressed in this study was concerned with the identification of factors that inhibit Small and Medium Enterprises from exporting their products to South Africa’s most important trading partners. To achieve this objective, a theoretical study was conducted to establish what literature reveals to be the most important trading partners, and the problems which businesses experience when they export their products to these destinations from the Eastern Cape.

The information obtained in the literature study was analysed, and, in order to resolve the main problem, the research questionnaire was divided into four parts.

- **Part 1** consisted of biographical questions.
- **Part 2** consisted of questions aimed at establishing the reasons why organisations embarked on exporting.
- **Part 3** was concerned with what the respondents perceived as barriers to their export operations.
- **Part 4** was concerned with strategic decisions and the minimising of risk.
The empirical results obtained indicate that, although inhibiting factors are a reality in exporting, these remain secondary to general market forces of supply and demand. It was shown that inhibiting factors do not play as big a role in the export process as the literature suggests.
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1.2 INTRODUCTION

Hough and Neuland (2000:343) are of the opinion that, if South African companies are to compete successfully in the global marketplace, it is important to become involved in the globalisation process as soon as possible.

According to Johnson and Scholes (2002:103), global competition is becoming more evident, and as it does, encourages further globalisation. If the level of exports and imports between countries is high, it increases interaction between competitors on a more global scale. It may also be that the interdependence of a company’s operations across the world encourages the globalisation of its competitors.

Jeffrey Sachs and Andrew Weber studied the relationship of “openness” (the ease of doing business with a particular country) and economic growth for the years 1970 to 1990. Their study revealed that in developing countries, the open economies grew at 4.49 percent per year, and the closed economies grew at 0.69 percent per year. In developed economies, the open economies grew at 2.29 percent per year, and the closed economies at 0.74 percent per year (Hill, 2003:152).

Hill (2003:475) continues that the potential of a country is a function of many factors, but mainly economical and political: size of the market, present wealth of consumers, future wealth of consumers, costs of a market, risks, and political instability.

The possibility of a larger market, improved profit for entrepreneurs in developing countries, and an opportunity to earn a more desirable currency, are some of the factors why a firm finds exporting an appealing option (Karamally, 1998:5).
According to Professor Kevin Wakeford (personal communication 9 September 2002), the exporting position of South Africa between 2000 and 2001 showed only a marginal increase. The Comprehensive Report on the United States Trade and Investment Policy towards Sub-Saharan Africa (2002:27) states that South Africa experienced a 13 percent decrease in exports to the United States. Figure 1.1 has bearing on the South African trade situation.

Figure 1.1 Foreign trade as a percentage of Gross Domestic Product

<table>
<thead>
<tr>
<th>TRADE AGGREGATE</th>
<th>1980 %</th>
<th>1990 %</th>
<th>1995 %</th>
<th>2000 %</th>
<th>2001 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>NET GOLD EXPORTS</td>
<td>16,2</td>
<td>6,3</td>
<td>4,1</td>
<td>3,0</td>
<td>3,0</td>
</tr>
<tr>
<td>MERCHANDISE EXPORTS</td>
<td>16,2</td>
<td>15,4</td>
<td>15,8</td>
<td>21,8</td>
<td>23,8</td>
</tr>
<tr>
<td>MERCHANDISE IMPORTS</td>
<td>23,3</td>
<td>15,4</td>
<td>18,1</td>
<td>21,4</td>
<td>22,6</td>
</tr>
<tr>
<td>SERVICE AND INCOME RECEIPTS</td>
<td>3,8</td>
<td>3,6</td>
<td>3,8</td>
<td>5,6</td>
<td>6,0</td>
</tr>
<tr>
<td>SERVICE, INCOME &amp; TRANSFER PAYMENTS</td>
<td>8,7</td>
<td>8,0</td>
<td>7,0</td>
<td>9,4</td>
<td>10,5</td>
</tr>
<tr>
<td>TOTAL TRADE</td>
<td>62,7</td>
<td>43,5</td>
<td>45,1</td>
<td>54,5</td>
<td>58,1</td>
</tr>
</tbody>
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EFFECTIVE EXCHANGE RATE 1995 = 100

<table>
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</thead>
<tbody>
<tr>
<td>EFFECTIVE EXCHANGE RATE</td>
<td>443</td>
<td>136</td>
<td>100</td>
<td>68</td>
</tr>
</tbody>
</table>


Net gold exports stayed the same for 2000 and 2001 on three percent of Gross Domestic Product (GDP). It is not foreseen that small and medium-sized enterprises can contribute to this figure.
Overall, merchandise exports (two percent from 2000 to 2001 on GDP); merchandise imports (1.2 percent of GDP), and service and income receipts (0.4 percent of GDP) increased from 2000 to 2001. Exports to the United States declined.

Service, income and transfer payments reflect a 1.1 percent negative increase on GDP. This reflects negatively on the balance of payments.

It is clear from the above figure, that on the balance of payments the net increase is only 0.1 percent on GDP. That is despite the South Africa/European Union Trade, Development and Cooperation Agreement (TDCA).

It is general knowledge that big firms in South Africa take advantage of the weak currency and the lifting of barriers in both the European Union and the United States; however, Small and Medium Enterprises (SMEs) are not leveraging the favourable conditions in the same manner as large firms. This leads to the main problem of the research.

1.2 MAIN PROBLEM

What factors inhibit Small and Medium Enterprises from exporting their products?

1.3 SUB-PROBLEMS

In order to resolve the main problem, the following sub-problems have been developed:

- What modes of entry into foreign countries can Small and Medium Enterprises use to export their products?
- What does literature reveal to be the inhibiting factors for Small and Medium Enterprises from exporting their products to the United States and the European Union?
What steps may be taken to ensure minimal risk in entering a foreign country?
What do knowledgeable people feel are barriers to entering foreign markets, and how can Small and Medium Enterprises overcome these barriers?

1.4 DELIMITATION OF THE RESEARCH

In order to ensure that the research project is a manageable size, it is necessary to demarcate the research to the United States (US) and the European Union (EU).

1.4.2 SIZE AND DEMARCATION OF ORGANISATIONS TO BE RESEARCHED

The scope of the research will be limited to Small and Medium Enterprises in South Africa, irrespective of the industry. An enterprise in this context can also mean a business unit.

Firms with up to 500 employees will be considered the maximum size for a medium enterprise (Doole and Lowe, 2001:179).

1.4.2 GEOGRAPHIC DEMARCATION

Research will be restricted to the Eastern Cape region of South Africa. To ensure that all statistics are valid, it might include firms that are situated outside the province, but are exporting from the Eastern Cape.

1.5 DEFINITION OF KEY TERMS

1.5.2 BALANCE-OF-PAYMENT ACCOUNTS

Hill (2003:239) states that the balance-of-payment accounts consist of the following:
• **Current account** records transactions that pertain to three categories: merchandise (the export or import of physical goods), the export or import of services, and investment income. According to Toyne and Walters (1993:33), the flow of tangible physical products and commodities makes up the largest component of the current account, and is the major source of revenues, profit and employment.

• **Current account deficit** occurs when a country imports more goods, services, and income than it exports (Hill, 2003:239).

• **Current account surplus** occurs when a country exports more goods, services, and income than it imports (Hill, 2003:239).

• **Capital account** records transactions that involve the purchase or sale of assets (Hill 2003:239). According to Toyne and Walters (1993:33), only the net changes in foreign claims and liabilities are shown, not gross flows. It includes long-term direct investment, portfolio investment, and short-term capital flows.

For the purposes of this study, the balance-of-payment account may be considered as an important indicator of future economic and trade policy of South Africa.

1.5.2 **SMALL AND MEDIUM-SIZED FIRMS (SMEs)**

According to Paliwoda (1993:117), defining a small business is a difficult task, and defining what is meant by a small business across various countries is even more difficult. Doole and Lowe (2001:179) are of the opinion that a number of definitions of the small and medium-sized sector exist, but the most commonly used terms relate to the number of employees in the firm.

Doole and Lowe (2001:179) continue by stating that the European Union has changed its definition of SMEs from those firms employing fewer than 500 people, to those employing fewer than 250. This is not particularly useful for segmenting the smaller firm
sector. For example, a garment-making firm with 250 employees has a very restricted capacity to internationalise, whereas a 250-employee financial services or computer software company could be a significant international player.

Paliwoda (1993:117) has developed his own definition:

The Small and Medium Enterprise

- has only a small share of the market;
- is managed in a personalised way by its owners or people with a stake in ownership and does not have an elaborate management structure; and
- is not sufficiently large to have access to the capital market for the public issue or placing of securities.

For the purpose of this study, the review of smaller firm strategies is restricted to firms with fewer than 500 employees. Also for the purpose of this study, firms with up to 50 employees will be considered a small firm.

1.6 THE CONCEPT OF EXPORTING

1.6.1 EXPORTING

Paliwoda (1993:29) defines exporting as “simply the send or carry abroad, especially for trade or sale”.

Doole and Lowe (2001:180) suggest that “exporting is essentially marketing expansion and is akin to looking for new customers in the next town, next state or on another coast”.

Doole and Lowe (2001:180) continue that exporting, when defined as the marketing of goods and/or services across national and political boundaries, is not solely reserved for small and medium-sized businesses, nor a temporary stage for many firms in the process of internationalisation.
For the purposes of this study, exporting is regarded as a permanent strategy for SMEs to find new customers.

1.6.3 EXPORTING MOTIVES

Figure 1.2 Classification of export motives

<table>
<thead>
<tr>
<th>INTERNAL</th>
<th>EXTERNAL</th>
</tr>
</thead>
</table>
| **PROACTIVE** | • Managerial urge  
| | • Growth and profit goals  
| | • Marketing advantages  
| | • Economies of scale  
| | • Unique product/ technology competence  
| | • Foreign market opportunities  
| | • Change agents |
| **REACTIVE** | • Risk diversification  
| | • Extend sales of a seasonal product  
| | • Excess capacity of resources  
| | | • Unsolicited orders  
| | | • Small home market  
| | | • Stagnant or declining home market |

Source: Albaum, Strandskov, Duerr and Dowd (1994:31)

The above matrix suggests that different kinds of stimuli or influences cause a firm to engage in exporting. Such a distinction may be important because it identifies the nature of the export decision task: *Is the foreign activity initiated due to the need for exports or is it initiated on a pure voluntary basis – to improve an already secure company?*

The proactive approach is dependent on the quality of management employed in the firm. The reactive approach seems more to do with external influences than management-induced policies.
- **Degree of internationalisation**

  According to Albaum et al. (1994:30), to measure a firm’s degree of internationalisation, several measurements are proposed:

  - **Quantitative indicators** can be used absolutely or relatively. The absolute component gives an indication of the amount of resources a firm commits to foreign operations. The relative measure shows that a firm is strongly dependent on its foreign activities if it has committed a significant portion of its financial, technological, and human resources to foreign market activities.

  - **Qualitative indicators** include behavioural characteristics like top management’s commitment to overseas expansion, degree of foreign experience, and so on. The use of such indicators involves many measurement problems, which are difficult to put into operation.

  - The **type of foreign operation** a firm is engaged in can be a good indicator of its degree of internationalisation. Activities may, for example, be international by definition – an airline or shipping company. There are also distinct differences between an automobile company with several production facilities, and a textile company, which sells to only one foreign market.

- **Proactive and reactive firms**

  Doole and Lowe (2001:180) draw the important distinction between whether the motivations to export are principally reactive stimuli or proactive stimuli.

  Doole and Lowe (2001:181) continue by identifying the following reactive stimuli:

  - adverse domestic market conditions;
  - an opportunity to reduce inventories;
  - promotion capacity availability;
  - favourable currency movements;
  - reducing risk by increasing the number of country markets; and
  - unsolicited orders from overseas customers.
The proactive stimuli are also identified (Doole and Lowe, 2001:181):

- attractive opportunities for profit and growth;
- having products that can easily be modified for export markets;
- public policy programmes for export promotion;
- foreign country regulations;
- the possession of unique products;
- additional orders contributing to economies;
- the presence of an export-minded manager;
- the opportunity to better utilise management talent and skills; and
- management beliefs about the value of exporting.

1.7 SIGNIFICANCE OF RESEARCH

1.7.1 EXPORTING AND THE ECONOMY

According to Hill (2003:240), any international transaction automatically gives rise to two offsetting entries in the balance-of-payments. Governments are concerned when their country is running a deficit on the current account of their balance-of-payments. When this money flows to other countries, those countries use it to purchase assets in the deficit country. Selling assets to other countries finances a deficit on the current account. This practice puts the economy of a country at a disadvantage.

Toyne and Walters (1993:35) state that historically many developing countries have experienced severe balance-of-payment difficulties. This problem has multiple causes: depressed commodity exports and prices; serious debt-servicing problems caused by high interest rates; lower levels of inward investment flows from developed countries, and an inability to borrow from international capital markets.
1.7.2 **SMALL BUSINESS AND EXPORTING**

According to Aharoni (1994:9), a Small Business Administration survey conducted showed that 37 percent of United States firms with fewer than 500 employees were exporting. Of these, 25 percent employed fewer than 100 people. Karamally (1998:6) suggests that exporting is a necessary ingredient to ensure the survival and growth of small firms. Aharoni (1994:9) continues by emphasising that those small firms play a larger role in the economy than is often realised. The Comprehensive Report on the US Trade and Investment Policy towards sub-Saharan Africa (2002:65) suggests that small business totals 30 percent of US exports – amounting to 250 billion dollar of exports per year.

Beamish, Morrison and Rosenzweig (1997:15) state that effective international management starts with gaining knowledge of key variables in the global economic environment.

1.7.3 **BUSINESSES EXPORTING IN SOUTH AFRICA**

Personal communication on 27 May 2003 with the Regional Manager in the Eastern Cape of the Department of Trade and Industry (TDI), Mr Adnaan Grimsel, reveals data for the Export Marketing and Investment Assistance (EMIA) initiative as per Figure 1.3.
In Figure 1.3 a comparison of companies exporting in each province is displayed for the six-month period from 1 April 2002 to 30 September 2002. The X-axis displays the nine provinces in South Africa. The Y-axis displays the number of organisations that conducted exporting with the assistance of the Department of Trade and Industry within that time frame. Figure 1.3 encompasses all firms, including Small and Medium Enterprises. It is also evident from the figure that firms in the Eastern Cape are lagging far behind the export initiatives of firms in the Western Cape, Gauteng, Kwazulu Natal and Mpumalanga. It is therefore assumed that, for the purpose of this study, Small and Medium Enterprises also export in the same province ratios, since these figures are not separately available.

1.8 RESEARCH APPROACH

In this section the methodology to be followed in the research project is described.
1.8.1 OVERVIEW OF LITERATURE

The strategy of a firm with regard to different modes of entry will be investigated and discussed. Attention will also be given to considerations in selecting a strategy, as well as the advantages and disadvantages of each mode of entry. A distinction will also be made between direct and indirect exporting, with the accompanying impact of each on the strategy of the firm.

Risks, advantages and disadvantages in exporting to foreign countries will be investigated and discussed, with specific emphasis on South Africa's major trading partners. Existing applicable trade agreements between these countries will also be discussed, to attempt to isolate advantages and disadvantages.

1.8.2 EMPIRICAL STUDY

The empirical study will consist of three parts:

- A survey will be conducted in the delimited area to determine the problems and opportunities involved in obtaining a suitable mode of entry into foreign markets.

- The researcher will develop a comprehensive questionnaire based on the information gained from the literature study. This will be used to evaluate factors that inhibit or give rise to opportunities for small and medium exporting firms.

- The survey will be directed at general managers, directors, managers, and owners.

- Development of an integrated model: The results of the literature study, together with the results of the empirical studies, will be integrated, and will form an analysis of inhibiting factors to small and medium firms conducting exports. Knowledgeable people's opinions regarding possible solutions to these problems will be asked and documented.
1.9 **KEY ASSUMPTIONS**

- It is assumed that small and medium enterprises experience the same problems as big multinational enterprises, in exporting their products/services.
- It is assumed that the strategies which small and medium enterprises utilise to export their products/services will differ from that of multinational enterprises.

1.10 **PROPOSED PROGRAMME OF STUDY**

Chapter 1  Problem statement and definition of concepts.
Chapter 2  The modes of entry for small and medium enterprises.
Chapter 3  Risks, advantages and disadvantages in exporting to foreign countries.
Chapter 4  The empirical study, methods used, and analysis of demographic details of respondents.
Chapter 5  Findings, recommendations and conclusions of the empirical study.

1.11 **SUMMARY**

According to Karamally (1998:6), over 100,000 American companies export, and of these, small business constitutes the largest number.

According to Hill (2003:524), small exporting firms can find the process intimidating. A small firm must identify foreign market opportunities, familiarise itself with the mechanics of export and import financing, and learn how it should deal with foreign exchange risk.
It is evident that exporting is good for the economy of any country, and that more exporting by South African Small and Medium sized Enterprises can stimulate economic growth. It is also clear that export initiatives of small and medium firms are ranked much lower than in some other provinces. It seems, however, that risk exists for prospective firms of this size in exporting their products.

Major trading blocs like the United States and the European Union have been pressurised by the World Trade Organisation (WTO) to open their economies to developing countries. The goal of the tariff reductions seems to be the furthering of free trade. Whether it is to satisfy the politicians and/or to create for themselves new market opportunities remains to be seen.

In the next chapter, alternative modes of entry into foreign markets, and the accompanying advantages and disadvantages of each mode, will be discussed.
2.1 INTRODUCTION

In Chapter One the problem statement and definition of concepts were discussed. It is important to be aware of the purpose of the research and the implications of foreign markets, their advantages and disadvantages. In this chapter, it is necessary to understand how the markets can be entered recognising the advantages and disadvantages of each mode of entry.

Paliwoda (1993:137) writes that a firm should consider all alternative channel strategies when entering each market. The best strategy will be the one that is best situated, and optimal in that it takes into account market competition, perceived risk, and established corporate policy with regard to forms of market entry. An attempt will be made to demonstrate strategy as an integral part of the entry mode of a firm.

Johnson and Scholes (2002:26) are of the opinion that, because small firms are likely to be private companies, this significantly affects their ability to raise capital. Combined with the legacy of the founder’s influence on choice of product and market, this may mean that choice of strategy is limited. Specific modes of entry regarding exporting will be explored to establish alternatives that are open to small and medium sized businesses (SMEs).

Paliwoda (1993:137) continues that the selection of a market entry method has an important bearing on strategy that can later prove to be a severe constraint on future international expansion, unless due care and attention are exercised in terms of contractual arrangements.

2.2 ENTRY AS STRATEGY
A firm becomes committed to international markets when it realises that it can no longer attain its objectives by selling only domestically. With such commitment, the firm is well on its way to becoming **internationalised**. Exporting may create the best international learning experience, something that takes a firm towards more and more sophistication and commitment to other modes of foreign expansion (like establishing a foreign production facility) (Albaum et al., 1994:150).

Jain (1989:44) says that export strategy deals with the interplay of three forces, known as the “strategic three Cs”, namely the customer, the company, and the competition:

**Figure 2.1 Key Elements of Export Strategy**

Source: Adapted from Jain (1989:44).
As can be seen in Figure 2.1, the strategic three Cs form the export strategy triangle. All three are dynamic, living entities with their own objectives to pursue. Export strategy must then be defined in terms of these three constituents as an endeavour by a firm to differentiate itself from its competitors (Jain, 1989:44).

Jain (1989:121) continues that an exporter competes by choosing one of the areas of product, price, promotion, and distribution, for primary focus. If a firm chooses “product” as its core strategy (area of primary concern), appropriate changes in price, promotion and distribution (supporting strategies) have to be made in support of the core strategy.

2.2.3 THE ELEMENTS OF ENTRY STRATEGY

Jain (1989:122) is of the opinion that three types of analysis lead to fresh insights into the underlying factors namely profit economic analysis, market segmentation, and a competitor analysis. Without an entry strategy for a product or market, a company has a “sales” approach to foreign markets. Albaum et al. (1994:152) list the two alternative approaches as follows:

Table 2.1 Alternative approaches to foreign markets

<table>
<thead>
<tr>
<th></th>
<th>Sales approach</th>
<th>Entry strategy approach</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Time horizons</strong></td>
<td>Short run</td>
<td>Long run (say, 3 to 5 years)</td>
</tr>
<tr>
<td><strong>Target markets</strong></td>
<td>No systematic selection</td>
<td>Selection based on analysis of market/sales potential</td>
</tr>
<tr>
<td><strong>Dominant objective</strong></td>
<td>Immediate sales</td>
<td>Build permanent market position</td>
</tr>
<tr>
<td><strong>Resource commitment</strong></td>
<td>Only enough to get immediate sales</td>
<td>What is necessary to gain permanent market position</td>
</tr>
<tr>
<td><strong>Entry mode</strong></td>
<td>No systematic choice</td>
<td>Systematic choice of most appropriate mode</td>
</tr>
<tr>
<td><strong>New-product development</strong></td>
<td>Exclusively for home market</td>
<td>For both home and foreign markets</td>
</tr>
<tr>
<td><strong>Product adaptation</strong></td>
<td>Only mandatory adaptations (to meet legal/technical requirements) of domestic products</td>
<td>Adaptation of domestic products to foreign buyers’ preferences, incomes, and use conditions</td>
</tr>
<tr>
<td></td>
<td>Sales approach</td>
<td>Entry strategy approach</td>
</tr>
<tr>
<td>------------------------</td>
<td>-------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Channels</strong></td>
<td>No effort to control</td>
<td>Effort to control in support of market objectives/goals</td>
</tr>
<tr>
<td><strong>Price</strong></td>
<td>Determined by domestic full cost with some adjustments to specific sales situations</td>
<td>Determined by demand, competition, objectives, and other marketing policies, as well as cost</td>
</tr>
<tr>
<td><strong>Promotion</strong></td>
<td>Mainly confined to personal selling or left to middlemen</td>
<td>Advertising, sales promotion, and personal selling mix to achieve market objectives/goals</td>
</tr>
</tbody>
</table>

Source: Albaum et al. (1994:151)

Albaum et al. (1994:151) continue by stating that decisions for the marketing programme need to be made on:

- the objectives and goals in the target market;
- needed policies and resource allocation;
- the choice of entry modes to penetrate the market;
- a control system to monitor performance in the market; and
- a time schedule.

Jain (1989:123) concludes by stating that in generating alternatives, the core and supporting strategies should be combined in such a way that the exporter will attain “critical mass” — the minimum level of size and effectiveness needed to establish a strong position in the market. The strategy alternative that appears to best provide the opportunity to obtain critical mass, should be chosen.

### 2.2.4 CONSIDERATIONS IN SELECTING A STRATEGY

Paliwoda (1993:138) offers the following factors to be considered in making a strategic choice:
a) **Speed of market entry desired**
   Building up a wholly owned subsidiary may be too lengthy. An acquisition or licensing may be a viable option.

b) **Costs to include direct and indirect costs**
   The costs of doing business must be considered against the risks. Savings may be outweighed by indirect costs such as freight, strikes, and irregular supply of raw materials, etcetera.

c) **Flexibility required**
   The law of a country is in place to protect that country's nationals. Agents are appointed, or distributors given exclusive sales territory rights, usually only when it is deemed unlikely that there will be much future expansion by the company directly into that market.

d) **Risk factors**
   This includes political and economic risk. In a dynamic market, time is of the essence. A minimising stake in the venture may diminish risk. Investment activity in one market may lead to reprisals in another.

e) **Investment payback period**
   Short-term payback may be recovered with deals such as licensing and franchising, whereas collaborative joint ventures or joint equity ventures may tie up capital for years.

f) **Long-term profit objectives**
   The question of distribution channel policy influences the growth foreseen for that market. Agents hired by the firm may be replaced by a wholly owned subsidiary. The agent might not accept ex gratia payments, and it might lead to litigation in the local courts against the company.
g) Timing

Jain (1989:126) adds an all-important point that the appropriateness of any entry strategy will depend on whether the exporter wants to obtain an early entry to pre-empt the competition, or wants to wait to gain more knowledge about the market. According to Hill (2003:47), entry is early when an international business enters a foreign market before other foreign firms, and late when it enters after other international businesses have already established themselves. The advantages associated with entering a market early are commonly known as first-mover advantages. A disadvantage of first-mover advantages is associated with pioneering costs.

2.2.3 GENERAL ENTRY MODES TO FOREIGN MARKETS

Hill (2003:480) cites five different general modes to enter foreign markets. Managers need to consider these carefully when deciding which to choose:

a) Turnkey projects

Hill (2003:482) maintains that firms specialising in the design, construction and start-up of turnkey plants are common in some industries. The contractor agrees to handle every detail of the project for a foreign client, including the training of operating personnel. At completion of the contract, the foreign client is handed the “key” to a plant, which is ready for full operation.

Hibbert (1999:286) confirms this, and continues that a turnkey contract must also assist with the marketing of the product manufactured. If the contract imposes on the contractor an additional guarantee as to the quantity and the quality of the production over a long period, the turnkey contract will become a turnkey-plus-management contract.
Hill (2003:482) adds that turnkey projects are most common in the chemical, pharmaceutical, petroleum refining, and metal refining industries, all of which use complex, expensive production technologies.

b) Licensing

According to Hill (2003:482), licensing is an arrangement whereby a licensor grants the rights to intangible property to another entity (the licensee) for a specified period. The licensor receives a royalty payment from the licensee.

Beamish et al. (1997:107) are of the opinion that licensing is a strategy for technology transfer. It is also an approach to internationalisation that requires less time or depth of investigation in foreign markets, compared to export strategies, joint ventures, and foreign direct investment (FDI).

Kotler (2000:375) points out that licensing is a simple way to become involved in international marketing. The license may include a manufacturing process, trademark, patent, trade secret, or other item of value.

Toyne and Walters (1993:117) continue that some of the conditions usually found in the agreement include a description of the knowledge and property rights transferred, the terms of the royalties to be paid, where and how the rights are to be used and for how long, the territory covered by the agreement, and methods of control, to name a few.

Beamish et al. (1997:107) conclude that the strategic advantage to licensing depend on the technology, firm size, product maturity, and extent of the firm’s experience. The most important risk in licensing is the dissipation of its proprietary advantage. Thus, any licensor should try to ensure that its licensee would not be a future competitor.
c) **Franchising**

Franchising is a marketing-orientated method of selling a business service, often to small and independent investors with working capital but little or no prior business experience. It is almost an umbrella term that is used to mean anything from the right to use a name, to the total business concept (Paliwoda, 1993:150). Hill (2003:485) is of the opinion that franchising is a specialised form of licensing in which the franchiser not only sells intangible property to the franchisee, but also insists that the franchisee agrees to abide by strict rules as to how it does business.

Hough and Neuland (2000:269) say that while manufacturing firms primarily use licensing to gain access to foreign markets, service firms use franchising. The main attraction of this entry mode is that the franchiser bears little or no costs or risks.

Hellriegel, Jackson and Slocum (1999:161) conclude that a middle ground between starting a business and buying an existing business is to run a franchise.

d) **Joint ventures**

Hill (2003:486) explains that a joint venture entails establishing a firm that is jointly owned by two or more otherwise independent firms. Paliwoda (1993:172) confirms this by defining joint ventures as “the commitment, for more than a very short duration, of funds, facilities, and services by two or more legally separate interests, to an enterprise for their mutual benefit.”

Doole and Lowe (2001:271) state that joint ventures are based on the premise that two or more companies can provide complementary competitive advantages for the new company to exploit.
Rugman and Hodgetts (1995:496) expand on this by saying that one of the important steps in creating a joint venture is to research the partner and to learn about its resources and abilities to contribute to the arrangement. Particular attention needs to be focused on the partner’s

- distribution channels and large customer associations;
- recognised technical leadership in the field;
- support and service capabilities;
- geographic coverage;
- market image and reputation;
- complementary/competitive product fit;
- industrial ranking – first-, second-, or third-tier;
- willingness to accept a non-exclusive arrangement;
- industrial or banking group associations; and
- long-term synergies.

Doole and Lowe (2001:272) say that the stake taken by one company might be as low as 10 percent, giving them a voice on the management of the joint venture.

While there are significant potential advantages associated with using joint ventures, there are also limitations. For one thing, the profit potential may be less, because all profits must be shared. Being party to a joint venture can also affect operations in other markets, when one firm wants to create a new venture in a third market in which the joint venture has been selling (Albaum et al., 1994:239).

Albaum et al. (1994:239) suggest a decision model when considering a joint venture. This decision model is depicted in Figure 2.3, and follows below.
Figure 2.2  Decision Phases in Designing International Joint Ventures (IJV)

Decision phase | Key issues
--- | ---
Solution – opportunity identification | (A) Who makes first contact?  Reason for first contact?
 | Response by party B to initial contact?  Reason for B’s response
 | Outcomes of initial contact?  Changes in strategic thinking by A and B
Evaluation of basic proposal For IJV | Do enterprise philosophies match closely enough between A and B?  Strategic objectives of A and B
 | Market conditions favourable to achieve sales objectives?  Demand forecasts, competitive analysis
 | Manufacturing and supplier capability assessment of A and B  Technological and quality philosophies
Design of IJV | Government and banking conditions  Support required and provided
 | Division of equity, capital requirements  Reasons for equal or minority ownership
 | Management and operating organisation  Reason for equal or minority ownership
 | Reporting systems  How and why designed?
Implementation and results of operating IJV | How closely does reality match design?  Reasons for discrepancies
 | Sales, profits, salaries, satisfaction of customers of A and B  Reasons perceived for low or high performance

Source: Adapted from Albaum et al (1994:239)
Figure 2.2 offers a step-by-step decision framework when a firm considers an international joint venture with another firm. The decision phase follows the logical steps of identification (solution/opportunity), evaluation of the proposal, design of the proposal, and the implementation of the proposal. Level 1 asks relevant questions that warrant answers before any progress can be made, and before the next phase can be attempted. Level 2 is concerned with the underlying questions and assessments to make appropriate decisions and proposals.

Albaum et al. (1994:240) continue by saying that each of the phases in the decision model can take one or more years. There are many things that can lead to disagreements between the partners. They conclude that companies like McDonald’s and IKEA used this decision model on occasion.

e) Wholly owned subsidiaries

Hill (2003:488) explains that, in a wholly owned subsidiary, a firm owns 100 percent of the stock. He proposes that a wholly owned subsidiary can be created in two ways:

- The firm can set up a **green-field venture**; or
- It can acquire an established firm and use that firm to promote its products in that market.

A wholly owned sales subsidiary may provide a presence in the foreign market, but a sales presence alone is unpopular, particularly among those developing countries least likely to support production. Sales subsidiaries may then be perceived as only taking money out of the country and contributing nothing of value in return to the country in which it is based (Paliwoda, 1993:169).

Hough and Newland (2000:271) identify three distinct advantages of wholly owned subsidiaries:
• Firstly, it is the preferred mode of entry when the risk of losing know-how and technological expertise is high;

• Secondly, the mode provides for effective control over, and coordination with, subsidiaries in a global network of companies; and

• Thirdly, it may be a preferred option to capitalise on experience curve and location economies.

Hough and Newland (2000:271) continue that a wholly owned subsidiary is the most costly and risky form of foreign market entry, but the one with the highest level of control. The costs and benefits should be weighed carefully and evaluated when considering this mode of entry.

2.3.4 SELECTING AN ENTRY MODE

a) Risk and control in market entry

Hough and Newland (2000:266) state that a largely linear relationship exists between a firm’s level of control and the degree of risk associated with a number of entry modes.

The choice of market entry involves a fundamental and critical decision in the context of the firm’s international marketing function. Not only that, it will also have an effect on the way in which vital company resources are to be deployed (Hough and Newland, 2000:266). Doole and Lowe (2001:248) confirm this, by saying that the cost of utilising resources usually equates closely to levels of involvement and risk. This can be diagrammatically expressed as follows:
Doole and Lowe (2001:250) continue by stating that the most fundamental questions an exporter must answer are:

- What level of control over our international business do we require?
- What level of risk are we willing to take?
- What cost can we afford to bear?

b) Advantages and disadvantages of modes of entry

Hill (2003:489) lists the advantages and disadvantages:

**Table 2.2 Advantages and Disadvantages of Entry Modes**

<table>
<thead>
<tr>
<th>Entry Mode</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exporting</td>
<td>Ability to realize location and experience curve economies</td>
<td>High transport costs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trade barriers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Problems with local marketing agents</td>
</tr>
<tr>
<td>Turnkey contracts</td>
<td>Ability to earn returns from process technology skills in countries where FDI is restricted</td>
<td>Creating efficient competitors</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lack of long-term market presence</td>
</tr>
</tbody>
</table>
Hill (2003:489) continues that, owing to these advantages and disadvantages, trade-offs are inevitable when selecting an entry mode. Some generalisations about the optimal entry mode include:

- Firms often expand internationally, transferring the skills and products derived from their core competencies to foreign markets, where indigenous competitors lack those skills.
- By manufacturing in those locations where factor conditions are optimal and then exporting to the rest of the world, a firm may realise cost reductions by means of location and experience curve economies.

### 2.4 EXPORT ENTRY MODES

Set out below is a discussion of each export mode of entry.

<table>
<thead>
<tr>
<th>Entry Mode</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licensing</td>
<td>Low development costs and risks</td>
<td>Lack of control over technology</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Inability to realise location and experience curve economies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Inability to engage in global strategic coordination</td>
</tr>
<tr>
<td>Franchising</td>
<td>Low development costs and risks</td>
<td>Lack of control over quality</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Inability to engage in global strategic coordination</td>
</tr>
<tr>
<td>Joint ventures</td>
<td>Access to local partner’s knowledge</td>
<td>Lack of control over technology</td>
</tr>
<tr>
<td></td>
<td>Sharing development costs and risks</td>
<td>Inability to engage in global strategic coordination</td>
</tr>
<tr>
<td></td>
<td>Politically acceptable</td>
<td>Inability to realise location and experience economies</td>
</tr>
<tr>
<td>Wholly owned subsidiaries</td>
<td>Protection of technology</td>
<td>High costs and risks</td>
</tr>
<tr>
<td></td>
<td>Ability to engage in global strategic coordination</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ability to realise location and experience economies</td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from Hill (2003:489)
2.3.2 **DIFFERENT FORMS OF ENTRY MODES**

Albaum et al. (1994:176) classified alternative entry modes available to the exporter as being either **indirect** or **direct**. These two basic forms of exporting are distinguished on the basis of how the exporting firm carries out the transaction flow between itself and the importer. Paliwoda (1993:140) summarises it as follows:

**Figure 2.4 Charting the possibilities for direct and indirect exports, production and services.**

- **Direct export**
  - Freight forwarder handling paperwork and goods direct to client
  - Agent paid commission
  - Distributor purchases inventory and holds exclusivity of sales
  - Consortium of independent companies
  - Overseas sales affiliate

- **Indirect export**
  - Export house buying locally on its own account or for foreign principals
  - Trading company with established distribution outlets
  - Piggybacking (now subsumed under strategic alliances) uses the distribution channel of another company in related field

- **Production moving abroad**
  - Licensing patented manufacturing process (often includes know-how)
  - Know-how agreement for training and production process experience transfer
  - Assembly of knocked down or completely knocked down kits
  - Contractual joint venture or strategic business alliance (SBA)
  - Joint equity venture
  - Wholly owned subsidiary

- **Services moving abroad**
  - Franchising of brand name, logo (often includes management contract)
  - Management contract
  - Contractual joint venture or strategic business alliance (SBA) of fixed duration
  - Joint equity venture of no fixed duration with capital investment
  - Wholly owned subsidiary

Source: Adapted from Paliwoda (1993:140)

Albaum et al. (1994:176) continue by saying that the decision between the two forms involves determining the level of vertical control desired by the exporter. This involves considering two types of costs:

- the costs of actually performing the necessary functions; and
transaction costs that arise in the organisation of an activity or of contracting with other parties.

2.3.2 INDIRECT EXPORTING

Paliwoda (1993:141) postulates that firms find themselves being pushed into exporting, and it is with this connotation that we should consider “indirect” market entry strategies. Also frequently encountered in this category is the situation where a company may be unaware that its products are being exported.

According to Albaum et al. (1994:177), indirect exporting occurs when the exporting manufacturer uses independent organisations located in the producer’s country. The producer may have a dependent export organisation (an export department for example) that works with the independent marketing organisation and coordinates the entire export effort. The dependent firm does not actively engage in any international sales activities. Jain (1989:160) supports this point of view, and adds that the types of intermediaries and their names vary from country to country, and from industry to industry in the same country.

Doole and Lowe (2001: 250) cite four methods of indirect exporting:

a) **Domestic purchasing (export merchants)**

According to Albaum et al. (1994:179), the domestic-based export merchant buys and sells on his own account. He operates in a similar manner to a regular domestic wholesaler.

Doole and Lowe (2001:251) conclude that domestic purchasing could hardly be called an entry strategy, although it does provide the firm with access and limited knowledge of international markets. Small firms find that this is the easiest method of obtaining foreign sales, but being totally dependent on the purchaser, they are
unlikely to be aware of a change in consumer behaviour and competitor activity. They will also not be aware of the purchasing firm’s intention to terminate the arrangement.

b) **Trading company**

Doole and Lowe (2001:213) say that trading companies are part of the historical legacy from the colonial days, and although different in nature now, they are still important trading forces in Africa and Asia. The United Africa Company, part of Unilever, is claimed to be the largest trader in Africa. The Sogo Shosha has traditionally played an important role in Japanese international business.

Albaum et al. (1996:181) advise that trading companies should be of interest to all export marketers for two reasons:

- They may be necessary for market entry, both directly and indirectly. To penetrate the Japanese market, for example, the direct exporter would have to do business with a Japanese importing trading company.

- Since trading companies appear throughout the world, they may, for obvious reasons, be formidable competitors. Consequently, strategies may have to be changed in those markets where trading companies are major competitors.

c) **Piggyback operations**

Paliwoda (1993:142) is of the opinion that “piggybacking” is increasingly subsumed under strategic business alliances. Piggybacking is primarily a US phenomenon accruing between two consenting multinationals.

Albaum et al. (1994:188) define piggybacking as the situation when one manufacturer (the carrier) uses its foreign distribution facilities to sell another company’s (the supplier) products alongside its own. This type of marketing is used for products from companies that are non-competitive (but related),
complementary (allied), or unrelated. The particular relationship depends to a large extent upon the motives of the large already-exporting companies.

Doole and Lowe (2001:252) are of the opinion that piggybacking can work for smaller firms when two products are interdependent, or if the second product provides a service for the first.

d) Export Management Company (EMC) or Export Houses (EH)

Albaum et al. (1994:185) explain that export houses or export management companies (EMCs) are specialist companies set up to act as the export department for a range of companies. All correspondence with buyers and contracts is negotiated in the name of the manufacturer, and all quotations and orders are subject to confirmation by the manufacturer.

Albaum et al. (1994:185) continue by stating that many export management companies work on a commission basis, but the majority today do their own financing, assuming all credit risks abroad, and paying the manufacturer cash for every order.

Doole and Lowe (2001:251) conclude that export management companies can help small and medium-sized companies to initiate, develop, and maintain their international sales. Because they take orders from foreign buyers, they provide indirect access to international market information and contracts.

e) Evaluating indirect exports for small and medium enterprises (SMEs)

Indirect exporting is often a small company’s first international exposure, and has the advantage of being a simple and low-cost method of exposing its products to foreign markets, without having to first gain the necessary expertise in the various aspects of international trading (Doole and Lowe, 2001:254). Jain (1989:169) confirms this by saying that distribution through intermediaries is especially
important for small companies that generally do not have the scale of operations, financial resources, or experience, to operate more directly in foreign markets.

Jain (1989:169) cites the advantages of indirect exporting as bringing new assets to the company, by providing local market know-how, knowledge and contacts, with little expenditure on the part of the exporter.

Doole and Lowe (2001:254) continue by stating that, because of the lack of direct contact between the firm and the market, indirect entry approaches are usually perceived as lacking long-term commitment. Until the firm becomes more involved in the market, customers and other members of the distribution channel are likely to withhold their full commitment to the firm.

2.4.4 DIRECT EXPORTING

According to Albaum et al. (1994:191), direct exporting occurs when a manufacturer or exporter sells directly to an importer or buyer located in a foreign market area.

Doole and Lowe (2001:254) advise that, if a company wishes to secure a more permanent long-term place in international markets, it must become more proactive by being directly involved in the process of exporting. This requires commitment from the company, and takes the form of investment in the international operation through allocating time and resources to a number of supporting activities.

Table 2.3 The Components of the Export Marketing Mix

<table>
<thead>
<tr>
<th>EXPORT COMPONENT</th>
<th>ACTION REQUIRED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product:</td>
<td>selection development and sourcing</td>
</tr>
<tr>
<td>Pricing:</td>
<td>policy, strategies, discount structures and trading terms</td>
</tr>
<tr>
<td>Promotion:</td>
<td>corporate promotions, and local selling, trade shows, and literature</td>
</tr>
<tr>
<td>Distribution:</td>
<td>sales force management, agents, distributors and logistics</td>
</tr>
<tr>
<td>EXPORT COMPONENT</td>
<td>ACTION REQUIRED</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>------------------------------------------------------</td>
</tr>
<tr>
<td>Services:</td>
<td>market research, training and sales servicing</td>
</tr>
<tr>
<td>Finance and administration:</td>
<td>budgets, order processing, insurance and credit control</td>
</tr>
<tr>
<td>Technical:</td>
<td>specifications, testing and product quality</td>
</tr>
</tbody>
</table>

Source: Adapted from Doole and Lowe (2001:256)

Paliwoda (1993:146) is of the opinion that the most popular form of direct entry is the agent or distributor.

Doole and Lowe (2001:258) continue that the more subjective factors like a senior executive’s formal or informal links, particular knowledge of culture or language, and perceived attractiveness of markets, may well influence an individual firm’s decision.

Albaum et al. (1994:191) remark that entry modes should not be viewed as sacred. When conditions change, so should the channel.

Doole and Lowe (2001:259) offer the following exporting methods:

a) **Agents**

   Paliwoda (1993:14) says that agents are the most common form of low-cost direct involvement in foreign markets. There are, however, disadvantages:

   - Service quality offered can prove extremely variable.
   - Loyalty may be questioned, if it is seen to rest purely on the company providing him with the greatest earnings.
   - Agents may present separate companies and product lines.
   - The company holds the agent responsible for whatever inventory, while at the same time being virtually deprived of market information.
   - It may be difficult to determine exactly why there is slow growth in a product line.
• In case of high growth, the agent normally require handsome compensation if the company wants to develop its own in-house export department.

• The situation may arise where the company wishes to expand its product line or diversify, and the local agents find themselves unable to meet this new expansion, but still hold a company agreement to exclusivity of sales territory.

Doole and Lowe (2001:259) are of the opinion that finding suitable agents or distributors can be a problematic process. They suggest some factors to achieve a satisfactory manufacturer-agent relationship:

• Allocate time and resources to finding a suitable qualified agent.

• Ensure that the manufacturer and agent understand what each expects of the other.

• Ensure that the agent is motivated to improve performance.

• Provide adequate support on a continuing basis including training, joint promotion, and developing contracts.

• Ensure that there is sufficient advice and information transfer in both directions.

b) Distribution

Albaum et al. (1994:202) provide two distinct differences between an agent and distributor:

• A distributor is a merchant, and as such, a customer of the exporter. An agent is a representative who acts on behalf of the exporter, and is not a customer. Thus, the distributor actually takes title to the goods while the agent does not.

• Another distinction arises through the method of compensation by which each is paid. The agent is usually paid on commission, while the distributor’s income comes from the margin taken as determined by the trade discount granted by the exporter.
Doole and Lowe (2001:260) conclude that distributors usually seek exclusive rights for a specific sales territory, and generally represent the manufacturer in all aspects of sales and servicing in that area. The exclusivity is in return for the substantial capital investment that may be required in handling and selling the products.

c) **Management contracts**

Paliwoda (1993:14) states that management contracts emphasise the increasing importance of services and know-how as a saleable asset in international trade. Based on a contractual form, they will concern the transferral of management control systems and know-how involving personnel training. The demand arises from those countries where a *managerial gap* exists.

Another example of management contract may be part of a deal to sell a processing plant as a *turnkey operation* (Doole and Low, 2001:260).

d) **Direct marketing (Direct overseas distribution)**

Toyne and Walters (1993:632) are of the opinion that exporters wish to sell their products directly to the foreign end user. Certain products, such as raw materials, various types of components, and capital equipment, may lend themselves to be sold through direct solicitation in which no middlemen are involved.

Direct marketing is also concerned with marketing and selling activities that do not depend for success on direct face-to-face contact, and include mail order, telephone marketing, television marketing, media marketing, direct mail, and electronic commerce using the Internet (Doole and Lowe, 2001:262).

Toyne and Walters (1993:633) conclude that corporate control is maximised, direct access to customers is achieved, middleman margins are avoided, and experience in the foreign market is gained rapidly. This strategy requires significant financial investments and a long time to develop the contracts, channels, and distribution...
approach needed in the market. They continue by mentioning that this is an option for larger, well-established exporters only.

2.5 RELATIONSHIP MANAGEMENT AND INTERACTION THEORY

Paliwoda (1993:192) says that the interaction model recognises the customer as important, and puts at the very centre, the nature of the relationship between buyer and seller. Transactions are different from relationships that are frequently long-term. To distinguish between them, the simple transaction is called an “episode”, which may or may not be repeated. It may evolve, if repeated over time, into a relationship. Episodes have four elements:

- product or service exchange, which is at the very core of the relationship;
- information exchange, which may be personal or impersonal;
- financial exchange; and
- social exchange, which helps also to further reduce uncertainty in a relationship based on market trust.

Paliwoda (1993:193) suggests that this relationship requires market presence, as depicted in Table 2.4 below.

<table>
<thead>
<tr>
<th>Table 2.4 Market Control and Modes of Entry</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Control over market strategy</strong></td>
</tr>
<tr>
<td>Exporting without presence</td>
</tr>
<tr>
<td>Exclusive agent</td>
</tr>
<tr>
<td>Concession</td>
</tr>
<tr>
<td>Sale of patent or licence</td>
</tr>
<tr>
<td>Franchise</td>
</tr>
<tr>
<td>Management contract</td>
</tr>
<tr>
<td>Joint venture</td>
</tr>
</tbody>
</table>

Better control

Uncontrolled

Good control

No control

Weak control
Relationship management is crucial when one considers that, for every customer complaint received, there are 27 that feel the same way, but do not complain. Tasks of the marketers and buyers often have more to do with maintaining a relationship than with a straightforward sale and purchase. Thus, it is crucial that one selects the mode of entry with a view to the customer as part of the strategic choice (Paliwoda, 1993:192).

2.5 **SUMMARY**

In Chapter Two, strategy was discussed as an integral part of a business’s mode of entry to foreign markets. Different elements of entry strategy were discussed, as well as the different considerations a company must consider in choosing a strategy. The importance of choosing the right entry option from the outset could not be over-emphasised.
General entry modes to foreign countries were determined and investigated, and the advantages and disadvantages of each determined. It is important to realise that different strategies exist that are available to firms when circumstances demand. No business strategy is cast in stone, and a firm must be flexible enough to change along with its circumstances if it wants to survive in today's marketplace.

Entry modes were then investigated, with specific reference to small and medium sized exporting businesses (indirect exporting), compared to options of bigger, established exporters (direct exporting).

It was established that indirect exporting makes use of intermediaries that shield the smaller firm from the need to incur the costs of an export department. The disadvantages of trading at arm's length were also discussed. The advantages of direct exporting, which come at an additional premium to the exporter, were investigated. It is evident that each firm's unique position will dictate what export mode it should choose.

It was established that the mode of exporting is closely correlated with control of its international operations. It was further necessary to indicate that control is closely correlated with customer satisfaction, and that the entry mode chosen will have a profound effect on customer satisfaction. Customer satisfaction (and retention) is an important variable to be considered when deciding on entry strategy.

Chapter Three will investigate the different barriers that exist when entering foreign markets, the relevant trade agreements South Africa has with the European Union and United States, and will offer factors for success when a small firm contemplates exporting to these markets.
3.1 INTRODUCTION

In Chapter One, it was discovered that different motives for exporting exist. This is important, since it implies the strategic direction of the firm, as well as its future exposure to risk.

In Chapter Two, the different modes of entry available to a firm were discussed, with the potential benefits and disadvantages of each. Since exporting is the first step to the internationalisation of a firm, it is important to consider alternatives when circumstances change. It is also important to consider the different modes of exporting, and the options open to a firm in different scenarios.

Hill (2003:172) is of the opinion that governments’ motives are to protect domestic producers from foreign competition, while increasing the foreign market for products of domestic producers. In this chapter, instruments of trade policy (tariffs and non-tariff barriers) are introduced as another variable impacting on firms. It is important to examine the nature and consequences of these instruments.

In order to determine the factors that inhibit the exporting operations of small and medium enterprises (SMEs), it is important to highlight the possible solutions revealed by literature, as well as the problems faced by the firms under study. For the purpose of this study, guidelines to the introduction of an exporting programme will also be investigated.

3.2 THE PROMISE AND PITFALLS OF EXPORTING
According to Hill (2003:524), the great promise of exporting is that large revenue and profit opportunities are to be found in foreign markets for most firms in most countries.

Karamally (1998:6) writes that researchers have suggested, “Exporting is a necessary ingredient to ensure the survival and growth of small firms.” According to Seria (2002:13), good quality and a favourable exchange rate boosted fish exports to European markets that resulted in shortages in South Africa and pushed prices up as a result. Hake, for example, fetched up to 48 Rand per kilogram - up from 30 Rand per kilogram at the end of October 2002.

Hill (2003:524) states that large firms tend to be proactive about seeking opportunities for profitable exporting, while many medium-sized and small firms are very reactive, and tend to wait for the world to come to them, rather than going out into the world to seek opportunities.

Hill (2003:525) continues by stating that common pitfalls for exporting firms include poor market analysis, a poor understanding of competitive conditions in the foreign market, a failure to customise the product offering to the needs of foreign customers, lack of an effective distribution programme, a poorly executed promotional campaign in the foreign market, and problems securing financing.

Karamally (1998:17) states that there is a distinction to be made between the developed and developing world. Differences between the two worlds include illiteracy, the rights of women as consumers, the availability of logistics networks, and the distribution of political, social, and economic power. It is, however, important to note that the most fortunate individuals in the developing economies do enjoy incomes comparable to the middle and upper class in the richer countries. They also seem to have the same consumption capacities and inclinations as their counterparts in the developed world.
According to Karamally (1998:18), if there is anything predictable about developing countries, it is not winning over the buyer, but gaining authority from the government to import the goods. This scenario is repeated over and again in these types of markets.

3.3 INSTRUMENTS OF TRADE POLICY

Hill (2003:525) states that exporters face voluminous paperwork, complex formalities, and many potential delays and errors, and exporters tend to underestimate the time and expertise needed.

According to Doole and Lowe (2001:39), trade distortion practices can be grouped into two basic categories, namely tariffs and non-tariff barriers.

3.3.1 TARIFF BARRIERS

Hill (2002:173) explains that a tariff is a tax levied on imports. Tariffs fall into two categories:

- Specific tariffs are levied as a fixed charge for each unit of a good imported; and
- Ad valorem tariffs are levied as a proportion of the value of the imported goods.

Doole and Lowe (2001:41) say that there is also a discriminatory tariff that is charged against goods coming from a particular country, either where there is a trade imbalance, or for political purposes.

According to Karamally (1998:21), governments use tariffs as a tool to increase revenues, support foreign policy positions, retaliate against other governments imposing discriminatory trade action, shield domestic industry and employment from foreign competition, uphold social and cultural preferences, and ensure critical military suppliers and industries.
According to Hill (2003:173), the important thing to understand about tariffs is who gains and who suffers. The government and the protected domestic producers gain, but consumers lose because they must pay more for certain imports. According to Govender (2002:1), the trade policies of the European Union (EU) and the United States (US) regarding agriculture are such that they subsidise their own industries while retaining trade barriers against exports from other countries. Not only do consumers in their own countries suffer, but developing countries also suffer, thus reducing the efficiency of the world economy.

According to Karamally (1998:23), certain assumptions can be made about the position of businesses on tariff policy:

• The ones who sell or use imported goods are usually against tariffs;
• The ones who compete against imported goods support tariffs; and
• The ones who are neither import-dependent nor import-competitive are indifferent.

Doole and Lowe (2001:39) conclude that tariff barriers are a visible and known quantity, and so can be accounted for by companies when developing their marketing strategies.

3.3.2 THE NON-TARIFF BARRIERS

Karamally (1998:28) proposes that infinite variations of barriers exist that are far more insidious and pervasive than the standard tariffs that are specific to numeric formulas. These include import and export licences, quotas, paperwork requirements, rules on origin, import valuation, customs’ clearance procedures, environmental protections, subsidies, anti-dumping policies, special labelling and packaging, and health-and-safety standards. Many of these rules prevent the transaction from taking place at all, regardless of how much duty is paid. Non-compliance will mean total prohibition, or severer penalties. The General Agreement on Tariffs and Trade (GATT)/World Trade
Organisation (WTO) Uruguay Round (1986 – 1993) accomplished much to address these issues. A complete solution is, however, unattainable.

Doole and Lowe (2001:437) state that for infrequent exporters and those that have insufficient resources for effective export administration, the process of ensuring that goods reach their ultimate destination is beset with difficulties: goods are held in customs warehouses without apparent reason, paperwork is confusing; high and apparently arbitrary duties, levies and surcharges are imposed, and exorbitant payments are needed to expedite the release of goods. The UN Conference on Trade and Development (UNCTAD) believes that these additional costs to world trade could be as much as 10 per cent of the seven trillion dollars taken in world trade!

However, Doole and Lowe (2001:41) are of the opinion that, parallel to the reduction in tariff barriers, non-tariff barriers have substantially increased. Non-tariff barriers are more elusive, and can be more easily disguised.

Claasen (2002:1) states that, in spite of the access to the United States’ market granted under AGOA, the United States is still difficult for South African firms to penetrate, because of the non-tariff barriers. According to him, only a limited number of companies (Dorbyl in Port Elizabeth, for instance) have reported that they have managed to do well there.

3.3.3 SERVICES AND THE WORLD ECONOMY

The rise of the service sector is a global phenomenon. Services contribute an average of more than 60 percent to the gross national product of all industrial nations. Trade in services constitutes about 25 percent of overall world trade (Czinkota and Rankainen, 1996:426).

Czinkota and Rankainen (1996:429) continue that it is not easy to define barriers to service marketing. They offer the following barriers to services:
From Figure 3.1 it can be seen that governments use tariffs, non-tariff barriers, selected employment, and restricting the size of the industry, to protect local industries from outside competition. Government lobbying by local interest groups is frequently the cause of government intervention in free trade. Non-government obstacles to free trade include distance (great distance results in high transport costs), and scarce factors of production. In addition to the information given in Figure 3.1, competitors and the potential market size could be added, which can also pose a severe barrier to future profitability.
Czinkota and Rankainen (1996:430) conclude that, even if barriers to entry are non-existent or can be overcome, service companies have difficulty in performing effectively once they have achieved access to the overseas market. Rules and regulations inhibiting innovation, and the aim of governments to pursue social or cultural objectives, are some of the reasons why service companies have difficulties in performing effectively.

3.3.4 DUMPING

According to Hill (2003:178), “dumping” is defined as selling goods in a foreign market at below their costs of production, or as selling goods in a foreign market at below their market value.

A charge of dumping assumes that the exporter is playing unfairly to capture market share, or is trying to get rid of inventory it cannot sell. The possible impact is serious injury to local producers. Unfortunately, much to the dismay of exporters, dumping is difficult to prove or disprove. This could turn out to be harassment in the guise of trade law (Karamally, 1998:36).

Various governments are watching for such abuse, and often force companies to change the arm’s-length price – that is, the price charged by other competitors for the same or a similar product, in order to prevent dumping in their markets (Kotler, 2000:384).

According to Hill (2003:195), the rather vague definition of what constitutes dumping has proved to be a loophole, which many countries are exploiting to pursue protectionism. When an industry faces strong foreign competition, the first response of those firms seems to be to cry foul, and accuse the foreign producers of dumping.
According to Hayward (2002:12), from 1998 to 1999, South Africa was the number one user of anti-dumping procedures, but then went from being a key complainant to being a major target. A key reason for this was the weak Rand, which made it more expensive to import goods, and which provided a “natural protection” for South African firms. Other nations became alert to South African low-cost producers and exporters need to be wary of uncompetitive competitors. These competitors seem to use lobbying in order to move their governments to introduce anti-dumping measures.

3.3.5 THE IMPLICATIONS OF TRADE BARRIERS TO BUSINESS

Hill (2003:195) proposes two main reasons why a firm should be aware of the merits and arguments for free trade or protectionism:

a) Trade barriers and firm strategy

Trade barriers are, according to Hill (2003:196), a constraint on a firm to disperse its production facilities in a number of ways:

- Tariff barriers raise the costs of exporting products to a country. This may put the firm at a competitive disadvantage against competitors in that country.
- Quotas and voluntary export restraints may limit a firm’s ability to serve a country from locations outside of that country.
- To conform to local content regulations, a firm may have to locate more production facilities in a given market than it would otherwise.
- Even where trade barriers do not exist, the firm may still want to locate some production facilities in a given country, to reduce the threat of trade barriers being imposed in the future.
Hill (2003:196) continues that options open to the firm to evade trade barriers may include moving production into the country imposing barriers, or moving production into countries whose exports are not targeted by the trade barriers.

b) **Policy implications**

Hill (2003:197) proposes that government intervention has three drawbacks:

- Intervention can be self-defeating, since in practice it tends to protect the inefficient, rather than help firms become global competitors;
- Intervention is dangerous: it might invite retaliation and trigger a trade war; and
- Intervention is unlikely to be well executed, given the opportunity for such a policy to be captured by special-interest groups.

### 3.4 SOUTH AFRICA’S MAJOR INTERNATIONAL TRADING PARTNERS

According to Professor K. Wakeford, former chairperson of South African Chamber of Business (SACOB), (personal communication, 9 September 2002) South Africa has three existing agreements with trading partners, namely:

- Southern African Development Community (SADC);
- South Africa/European Union Trade Agreement; and
- African Growth and Opportunity Act (AGOA).

SACOB’s official figures of South Africa’s trading partners (personal communication, Professor K Wakeford, 9 September 2002) indicate that Europe and the United States of America are the country’s biggest trading partners:
Figure 3.2 Foreign Investment Including FDI in South Africa at end of 2000

Countries excluding the United States and the European Union trade areas seem dismal in comparison.

3.4.1 SOUTH AFRICA/EUROPEAN UNION TRADE AGREEMENT

The Cotonou Convention was signed between the African, Caribbean and Pacific (ACP) group of states and the European Union on 23 June 2000. It replaces the Lome Convention and is geared to tackle poverty within the ACP states. It is valid for a period of 20 years, and will be open for revision once every five years (Hazar, 2000: 2).

Hazar (2000:2) continues by stating that the same special Protocol, previously specifying the terms and conditions of its membership, will be enforced. South Africa will, however, benefit from the South Africa/European Union Trade, Development and Cooperation Agreement (TDCA), signed in October 1999. According to Oumlil and Oumlil (2001:23), the European Union would phase out tariffs within four years on 97
percent of non-agricultural products and 55 percent of agricultural products over a 12-year period. In return, it is expected that South Africa phase out tariffs on 88 percent of non-agricultural goods over a 12-year period, and 95 percent of agricultural exports within 10 years.

According to Sapa (2000:11), the delay in the intellectual property rights issue associated with the usage of the terms “port” and “sherry” was resolved only in October 2000. According to Sapa (2000:11), European Union ambassador, Mr Michael Laidler, was quoted as saying that the European Union was committed to assisting small business development in South Africa, and was in discussion with government and the private sector to finalise an investment plan for the sector.

3.4.2 THE AFRICAN GROWTH AND OPPORTUNITY ACT (AGOA)

a) Background to the Growth and Opportunity Act (AGOA)

According to the Comprehensive Report on the United States Trade and Investment Policy towards Sub-Saharan Africa (2002:24), AGOA authorised a new United States (US) trade and investment policy towards Africa. AGOA has the following aims:

- To institutionalise a process for strengthening United States relations with African countries and provide incentives for African countries to achieve political and economic reform and growth.
- To offer eligible Sub-Saharan African countries duty-free and quota-free market access for almost all products to the United States.
- To provide additional security for investors and traders in African countries by guaranteeing Generalised System of Preferences (GSP) benefits for eight years.
- To eliminate the GSP competitive need limitation for beneficiary Sub-Saharan African countries.
• To establish the United States – Sub-Saharan Africa Trade and Economic Cooperation forum to facilitate regular ministerial-level trade and investment policy discussions.
• To promote the use of technical assistance to strengthen relationships between United States’ firms and firms in Sub-Saharan Africa.

b) Implications for South Africa

The top eight countries to which the United States exports are as follows:

Table 3.1 Leading U.S. Export Markets in Sub-Saharan Africa

<table>
<thead>
<tr>
<th>Country</th>
<th>2001 Export Value ($ Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>2,961.80</td>
</tr>
<tr>
<td>Nigeria</td>
<td>957.2</td>
</tr>
<tr>
<td>Kenya</td>
<td>577.4</td>
</tr>
<tr>
<td>Angola</td>
<td>276</td>
</tr>
<tr>
<td>Namibia</td>
<td>255.6</td>
</tr>
<tr>
<td>Ghana</td>
<td>199.8</td>
</tr>
<tr>
<td>Cameroon</td>
<td>184.2</td>
</tr>
</tbody>
</table>


It is clear from the above that South Africa is the recipient of more than three times as many exports from the United States as the next-biggest trading partner, Nigeria.

The principal suppliers to the United States are as follows:
Table 3.2  Principal Sub-Saharan African Suppliers to the United States

<table>
<thead>
<tr>
<th>Country</th>
<th>2001 Export Value ($ Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nigeria</td>
<td>8,786.3</td>
</tr>
<tr>
<td>South Africa</td>
<td>4,428.3</td>
</tr>
<tr>
<td>Angola</td>
<td>3,099.6</td>
</tr>
<tr>
<td>Gabon</td>
<td>1,655.2</td>
</tr>
</tbody>
</table>


Nigeria is exporting almost twice as many products to the United States as South Africa. This leaves much to be desired, considering South Africa’s imports from the United States and the subsequent effect on the balance of payments.

According to Mathews (2002:3), AGOA is offering reduced tariffs or duty-free exports, which is the first step towards a free trade agreement between South Africa and the United States. This will eventually give United States goods similar access to South Africa. This is confirmed by the Report on the United States Trade and Investment Policy towards Sub-Saharan Africa (May 2002:72): “It [AGOA] would also level the playing field in areas where United States exporters are disadvantaged by South Africa’s free trade agreement with the European Union and create an environment that enables an expanded United States commercial presence in the region”.

According to Presley (2001:2), motor companies, flat-rolled steel products, ice cream, mushrooms, nuts and pears have benefited from AGOA since its introduction.
3.5 ADVANTAGES AND DISADVANTAGES FOR INTERNATIONAL TRADE IN THE EUROPEAN UNION MARKET

Establishing operations within the European Union, rather than exporting to this trading bloc, may pose some advantages for a firm following this strategy.

3.5.1 ADVANTAGES WITHIN THE EUROPEAN UNION

a) According to a study done by Price Waterhouse 1987/1988, as quoted by Oumlil and Oumlil (2001:277), the European Union identified basic areas that must be coordinated. It adopted a policy of “mutual recognition”. This policy established that companies operating or producing to the laws of one member nation would be deemed to be producing according to the laws of any member country. An organisation can thus avoid strict product-safety and environmental laws of member countries in the European Union, by moving to other member countries where such regulations are not so restrictive.

b) The introduction of the Euro as a single currency poses some advantages (Hill, 2003:272):

- Business and individuals will realise significant savings from reducing many currencies to one. Savings will come from saved foreign exchange and hedging costs.
- The development of a highly liquid Pan – European capital market will lead to a reduction in the cost of capital.
- A Euro-denominated capital market will increase the range of investment options for organisations.
- The free flow of capital across European Union countries’ borders makes it easier to finance big business ventures (Oumlil and Oumlil, 2001:279).
c) Cultural differences will still lead to modification of products. The establishment of a European common market might reduce the need for a wide range of modifications to products (Oumlil and Oumlil, 2001:280).

d) Business located within the European Union will have a competitive edge over foreign firms, because it will remove differences in standards, taxes, or regulations required (Oumlil and Oumlil, 2001:280).

e) Antitrust laws and a fragmented European market have impeded the exchange of information between businesses in Europe. The formation of new alliances between European Union companies will greatly enhance the ability to compete in global markets outside of the European Union (Oumlil and Oumlil, 2001:280).

3.5.2 ADVANTAGES OUTSIDE THE EUROPEAN UNION

a) Firms monitoring the formation of the European Union from the outside may not be at a disadvantage at all. Their wait-and-see approach may even be rewarded:

b) The unification of the European economy may provide well-managed organisations greater financial returns than previously expected from the fragmented European market (Oumlil and Oumlil, 2001:281).

c) Global organisations from outside the European Union have more experience in the organisation and establishing of manufacturing and distribution facilities in different geographical regions. They are used to operating in different and changing business environments. Firms from the United States, especially, have a competitive edge because of their experience in a vast geographical market, with different rules and regulations in each region (Oumlil and Oumlil, 2001:282).
d) Global organisations that planned penetration strategies in European countries can limit their options, providing a more concentrated focus (Oumlil and Oumlil, 2001:282).

e) Organisations that do not have operations based in any European Union country, but desire to enter the market, may decide to establish a European Union base. An organisation can choose a country where its production costs are minimised and distribute its products like any other European Union good (Oumlil and Oumlil, 2001:285).

f) The European Union represents an integrated market that equals or sometimes exceeds that of the United States (Oumlil and Oumlil, 2001:280). According to Moody (2002:22), South African companies can produce coal more cheaply than European countries, which resulted in a 33 percent rise in revenue in 2001 from sales within the European Union.

If the principles of free trade prevail, and the World Trade Organisation succeeds in lowering barriers even further, organisations outside the European Union may benefit by entering the trading block late. If restrictions are imposed, they might limit the chances of success when producing outside this trade bloc.

3.5.3 DISADVANTAGES FOR INTERNATIONAL TRADE

An integrated Europe does not only pose promises of rewards for organisations. Strong arguments against an integrated philosophy exist within the European business community.

a) Disadvantages within the European Union

Firms that use the European Union as their operating base may experience the following difficulties:
• The concept of mutual recognition poses threats to member nations of the European Union, since the regulatory authority of each member’s government is reduced to that of the lowest member country. This may restrict international competitiveness in the long run (Oumlil and Oumlil, 2001:272).

• Adoption of the Euro as a single currency poses the following disadvantages for business (Hill, 2003:272):
  a. The Euro makes it easier to compare prices across Europe. It is therefore more difficult to position products differently within member countries.
  b. Organisations will have to reduce their production costs to remain competitive. Those that do not will be forced out of the market.
  c. The European Central Bank (ECB) is independent of political pressure. The implication for business is that it shuts the door for political manoeuvring to suit organisations in a geographic region and makes lobbying very difficult.

• Political realities may oblige the European Union to enlarge its membership to include the former East Bloc nations (Oumlil and Oumlil, 2001:279). This will introduce new competitors to the region.

• Small and medium sized businesses within the European Union are suddenly exposed to unregulated competition from businesses based in other European Union countries (Oumlil and Oumlil, 2001:281).

• Businesses will be subject to different income taxes, depending on their location in the European Union. Businesses that do not plan carefully may jeopardise future operations (Oumlil and Oumlil, 2001:281).

National authorities have lost control over monetary policy that put pressure on economic freedom. It can therefore be assumed that this resulted in an inability of individual business to influence government policy.
b) **Disadvantages outside the European Union**

Organisations not part of a powerful trading block can find themselves at a competitive disadvantage in relation to their European counterparts. In fending off competitors, firms (small firms even more so) in South Africa are especially at a disadvantage, since the creation of a successful trading bloc seems more and more unlikely:

- The unification of the European economy may result in both stronger and more capable competition in Europe, resulting in the loss of market share for firms outside the European Union (Oumlil and Oumlil, 2001:281). According to Msomi (2002:21), the South African sugar industry called on the European Union to cut quota production by 25 percent to end sugar dumping in Southern Africa. Apparently European firms drive South African competitors to bankruptcy.

- Organisations that did not plan to enter the European Union may need to rethink their strategy, since European competitors may enter their markets. As a counter measure, they may want to reconsider European penetration (Oumlil and Oumlil, 2001:286).

- The European Union may want to protect their members against external trade, by raising trade barriers (Hill, 2003:275). South Africa exports 21 percent of its production of steel to the European Union. In the wake of a 30 percent increase in tariffs in the United States, the European Union announced “safeguard measures” to protect European Union markets against an influx of steel products diverted from the United States (Lipson, 2002:17). This will significantly affect South African producers, since it will make them uncompetitive.

- The European Union promised loyalty to GATT and WTO rules on international trade (Hill, 2003:275). The European Union, however, is using other market mechanisms to limit competition from outside the European Union. The wine and spirits debacle between the South African wine industry and their European
counterparts (name-changing of post, sherry, ouzo, grappa, etcetera) is an alternative tactic to tariffs (Paton, 2002:15).

- Political intervention by the European Union in other countries may have severe consequences for an organisation. The recent pressure put on South Africa to enforce economic sanctions on Zimbabwe is an example. The European Parliament passed a resolution prohibiting all 15-member states from trading with Zimbabwe (Paton, 2002:18).

It seems possible that small and medium firms can successfully export to the European Union when the right opportunity presents itself. It would, however, be wise to consider establishing operations in a European member country to minimise disruptive behaviour by this trading bloc.

c) Market Characteristics of the United States

Tuller (1993:35) suggests that competitive strategies call for a thorough understanding of the US market characteristics. These can logically be categorised into eight groupings.

- **The American “Will”**
  Tuller (1993:35) maintains that American customers show a remarkable resilience. They are quick to accept new ideas, and are not afraid to criticise or to accept criticism. The biggest mistake foreign traders and investors make is to take their self-criticism seriously.

- **Acceptance of things foreign**
  Many Americans are more than willing to try foreign products, even though American products are priced lower and are frequently of a higher quality (Tuller, 1993:36).

- **Diversity of cultural markets**
  Tuller (1993:36) states that the United States’ borders have always been open to foreign immigration and foreign trade, which has resulted in a diversity of ethnic
markets. Foreign traders should be warned that the longer these groups reside in the US, the more assimilated they become in broad American markets.

- **Product demand**

Not only is domestic demand high; a US presence opens doors to Canadian and Mexican markets as well. Virtually any industrial or consumer product that improves or protects the environment sells well. American consumers spend millions on imported ethnic foods, and speciality fruits and vegetables (Tuller, 1993:37).

- **American standards**

Tuller (1993:37) writes that Americans are not prone to change the standards they have been accustomed to for generations. Product literature and advertising; paper and packaging sizes; measurements (the metric system is not widely accepted); and safety, are some of the strictest in the world.

- **Economic cycles**

Tuller (1993:38) is of the opinion that the ideal time to enter the US market is immediately prior to the introduction of competing products, and should also coincide with the beginning of the upward trend in an industry’s economic curve. A good rule of thumb for strategic planning in the US is to remember that market penetration takes about five to eight years.

- **Staying power**

Staying power is extremely important to American consumers. They want to be certain that a company will be around in the future, to repair the product or provide after-sale service (Tuller, 1993:38).

- **Emphasis on service**

Tuller (1993:38) concludes that intense competition in virtually every industry gives customers the edge in choosing which products to buy. Regardless of a product’s utility, the customers’ loyalty goes to companies that pamper them with ironclad guarantees and out-of-the-ordinary after-sale service.
d) **Advantages and disadvantages of trading with the United States**

- **Advantages**
  
  Tuller (1993:34) offers some advantages:
  
d. The United States market is huge (250 million people), dynamic, and attracts a huge variety of products and services.

e. Corporate income tax rates are relatively low compared to European countries.

f. Profits can be easily repatriated.

g. A commonality of language and fairly uniform industrial standards throughout the country make it easy to expand within its borders. Generous tax breaks from Washington encourage foreign goods.

- **Disadvantages**

  Tuller (1993:34) offers the following disadvantages:

h. Foreign traders are easily misled by the comparative openness of the United States business scene. Major obstacles have shackled more than one company.

i. Customer preferences, customer services, market dispersion, distribution methods and sales techniques are substantially different from those found in other industrialised nations.

j. Federal, state, county, township and city laws frequently conflict.

k. Tax laws are challenging, overlapped by federal, state, county, township and city. Fifty states and thousands of lesser government bodies make the United States tax structure one of the most complex in the world.

e) **Problems for small exporters**

Paliwoda (1993:120) cites specific problem areas for small exporters:

- A relatively large domestic market and lack of exposure to other cultures, making the selection of markets and identification of customers’ abroad difficult.

- The lack of management time and general resources.
• Researching the foreign markets, selecting and motivating “arm’s length” commission agents. Finding the good agents and distributors and being able to keep them motivated.
• Controlling the foreign operation, channel policy, and physical distribution. The interest of principal and agent may often differ in small businesses. Because of their size, they may be more exposed to the varying degrees of political, economic and financial risk, and made uncertain by the indifferent attitude of a foreign agent.
• Paperwork and management of export operations.
• Cost of supervisory flying salesmen is often very high when calculated per man-year of effort in the field, even more so when calculated separately on a per visit basis.
• Which language is the sale staff to learn if visiting many territories? Targeting key markets, rather than spreading resources thinly over a number of territories, has been a strategy of many a small business.
• Cost of overseas offices may not be justified by the sales potential of particular territorial markets. Going it alone retains independence of action, but may be financially ruinous, having the same effect as “putting all your eggs in one basket”.
• Different safety and quality standards overseas may involve a small company in expensive modifications to achieve compatibility. This adds to the “up-front” costs before a single product may be sold.
• A long-term perspective has to be taken of many markets, which may require a long company presence before achieving any payback. This is particularly true where the product concept is new, existing distribution channels are unreliable, and the manufacturer wants to assure himself that the customer receives quality and service. In these cases, vertically integrated distribution networks are the answer.
Hill (2003:527) cites the export strategy of the Minnesota Mining and Manufacturing Co (3M) and, although not a small exporter, much can be learned from its strategy:

- Commitment of the firm’s management;
- An exporting approach in the firm which emphasised the importance of augmenting and maintaining skills;
- A good marketing information and communications system;
- Sufficient production capacity and capability, product superiority and competitive pricing;
- Effective market research to psychic distance between the home country and target country, given that it is knowledge that generates business opportunities and drives the international process;
- An effective national export policy, which provides support at an individual firm level, and emphasises the need for knowledge-based programmes, which prioritise market information about foreign market opportunities.

When deciding which countries to enter, the selection and subsequent modification of the product portfolio is important, and the stages involved in the development of the portfolio are summarised (Doole and Lowe, 2001:256):
Figure 3.3 illustrates that, before Phase One (initial entry) of a product can begin a product’s features might need to be tailored to suit the preferences of the export target market. Spare production capacities, attitudes towards risk, and additional utilisation of capital for equipment, are factors that must be born in mind, and will influence the attitude of senior management towards the export drive. Is sufficient production capacity available to avoid extensive capital layout on equipment or production facilities to make the product suitable for exporting?

Figure 3.3 also indicates that Phase Two can assume once initial entry is successful. Is the product reaching the intended target market? Is the product’s sale sufficient to warrant extensive distribution channels and to incur research and development costs? Finally, Phase Three is concerned with decisions about repositioning the product for a new market segment, tailoring the product to adapt to changing consumer needs, and expanding the product portfolio to cater for a wider audience. Figure 3.3 is ideally suited

Source: Adapted from Doole and Lowe (2001:257).
to small and medium enterprises, because it offers a systematic process whereby firms can manage the export strategy.

Doole and Lowe (2001:258) also mention that in small business, attitudes and commitment to international expansion are crucial for success, whereas in large companies other factors can have a bearing on performance.

Hill (2003:527) concludes by offering some strategic steps to increase success:

- First, particularly for the novice exporter, it helps to use an export management company (EMC) to help identify opportunities and navigate through the web of paperwork and regulations.
- Second, it makes sense to initially focus on one market. The idea is to learn what is required in this market, before moving on to other markets, otherwise one runs the risk of spreading limited management resources too thin.
- Third, it makes sense to enter a foreign market on a small scale, to reduce the costs of any subsequent failure. This will also allow the time and opportunity to learn about the market.
- Fourth, the exporter needs to recognise the time and managerial commitment involved in building export sales, and should hire additional personnel to oversee this activity.
- Fifth, it is important to devote a lot of attention to building strong and enduring relationships with local distributors and customers.
- Sixth, it is important to hire local personnel to help the firm establish itself in a foreign market.
- Seventh, the firm needs to be proactive about seeking opportunities. “Armchair exporting does not work!”
- Eighth, it is important to keep the option of local production in mind. Once exports reach a sufficient volume to justify cost-efficient local production, the exporting firm should consider establishing production facilities in the foreign
market. This helps foster good relations with the foreign country, and can lead to greater market acceptance.

3.7 SUMMARY

At the beginning of the chapter, the promise and pitfalls of exporting were discussed. It is essential for exporters, especially small firms, to understand that significant opportunities exist. This is, however, not without risk.

The World Trade Organisation (WTO) replaced GATT as the instrument to further world trade. This organisation aims to reduce tariff barriers among all member countries, and is instrumental in trade policy in today’s markets. Subsequently, tariffs and non-tariff barriers were discussed. It became clear that as the World Trade Organisation reduces tariffs, member countries increase non-tariff barriers. This makes it more difficult than tariffs ever did, for SMEs, in today’s trading environment, to include this uncertainty in their strategic planning.

The advantages and disadvantages of trading in the European Union were discussed. It was found that the unregulated environment poses great challenges for small and medium-sized firms. Multinationals in Europe are becoming formidable competitors. Opportunities and threats were discovered, posed by government interventions. Despite promised loyalty to GATT and the World Trade Organisation, it is evident that the European Union is set on protecting its market. It is clear that a unified Europe conducts trade with the rest of the world on its own terms. Small firms in South Africa will become increasingly more under pressure as firms in the European Union gain gradually more access to their home market. It may become essential for their future existence to engage in international trade.
The nature of the United States market, as well as its advantages and disadvantages, were discussed. Huge opportunities for small firms, especially under the auspices of the African Growth and Opportunity Act, exist, provided that they can adapt to American standards. It was also found that the United States is a master when it comes to imposing non-tariff barriers. Firms in South Africa may realise that their home market will be eroded once the big American multinationals get full market access.

Difficulties for small and medium-sized firms arise owing to the lack of financial and other resources, as well as poor market research and planning. It is difficult for small firms to commit sufficient management time and resources to developing a long-term strategy for them to be taken seriously in the world market. One option available is for them to focus on market niches, and to gradually become more involved in the market. Management commitment, and the fostering of personal relationships, may hold the keys to exporting success. It is essential for small firms to get involved in world trade as soon as possible. Their survival may depend on it.

In the following chapter, the empirical study and the research methodology used, will be discussed.
4.1 INTRODUCTION

In Chapter One it was found that internal and external motives for exporting exist, and that firms are either proactive or reactive to these pressures. In Chapter Two an overview was given of the different modes of entry available to a firm entering a foreign country, followed by different modes of exporting. Chapter Three described the instruments which trading nations (with specific emphasis on the United States and the European Union) use to keep out foreign firms. It concluded with a model to assist in an export programme, as well as a step-by-step guideline to small exporting firms.

The aim of this chapter is to explain the process used during the empirical study, and to document the results gleaned from Section A of the questionnaire, developed from the literature study. This is achieved through the following steps:

● Firstly, the research design will be documented in order to explain the steps taken during the study;
● Secondly, the planning of the study will be set out: this covers the population size, the development of the questionnaire, the pilot study, the administration of the questionnaire, and the responses to the questionnaire;
● Finally, a quantitative analysis of the demographical data of the respondents will be presented, to identify the groups that responded to the questionnaire.
Research involves the application of various methods and techniques to create knowledge through the use of scientific methods and procedures (Welman and Kruger, 1999: 2). Allison, O’Sullivan, Owen, Rice, Rothwell and Saunders (1996: 4) add that research is a systematic enquiry that is reported in a form that allows the research methods and outcomes to be accessible to others. Research involves seeking solutions to problems, or answers to questions. Riley, Wood, Cark, Wilkie and Szivas (2000: 8) refer to two types of research: pure and applied research. Pure research is that which has no obvious practical implications beyond contributing to a particular area of intellectual enquiry. Applied research, on the other hand, is problem-focused, and is directed towards solving some particular intellectual question that has practical implications for a client outside the academic world.

This research attempts to develop a strategy in order to solve a problem, and is thus applied research. According to Welman and Kruger (1999: 12), a research problem refers to some difficulty that the researcher experiences in the context of either a theoretical or practical situation, and for which she/he wishes to obtain a solution. In the case of this study, the problem posed by the researcher is:

What factors inhibit Small and Medium Enterprises from exporting their products?

In order to assist in resolving the main problem, four sub-problems were identified:

- What modes of entry into foreign countries can Small and Medium Enterprises use to export their products?
- What does literature reveal to be the inhibiting factors for Small and Medium Enterprises from exporting their products to the United States and the European Union?
- What steps may be taken to ensure minimal risk in entering a foreign country?
- What do knowledgeable people feel are barriers to entering foreign markets, and how can Small and Medium Enterprises overcome these barriers?

The procedure used to solve the main problem and the sub problems was as follows:
A literature study was conducted in Chapter Two, to establish the different modes of entry for firms wishing to enter other countries. This chapter revealed that different entry modes also exist for exporting (see Figure 2.3) and that these modes offer varying degrees of control to the exporting firm. This chapter resolved sub-problem one.

Chapter Three discussed the instruments of trade policy, which highlight tariff barriers as well as non-tariff barriers in international trade. It was also determined that the United States and the European Union are South Africa’s most prominent trading partners. The chapter concluded by investigating both the advantages and disadvantages of exporting to the United States and the European Union. This chapter assisted in resolving sub-problem two.

It was discovered in Chapter One that different motives for exporting exist, and that firms can be motivated by either internal or external factors to start exporting. It was found that firms could act either proactively or reactively to these challenges (see Figure 1.2). This matrix suggested the strategic direction of a firm contemplating exporting. Chapter Three continued by offering a model for initiation and development of an export portfolio (see Figure 3.3) and concluded by offering a series of steps to further improve chances of export success and the reduction of risk. Sub-problem three was thus successfully investigated and resolved.

Chapter Four describes the empirical study, the methods used, and the results and demographic details of the respondents.

Chapter Five documents the results of the empirical study. This chapter assists in resolving sub-problem four.

4.3 PLANNING THE EMPIRICAL STUDY

The empirical study was conducted by means of an E-mail survey with the use of a questionnaire (see Annexure 4.1) developed from the literature study. The results of the questionnaire were tabulated and statistically analysed. The process followed during the empirical study is set out below.
The questionnaire

A questionnaire is a common instrument for observing data beyond the physical reach of the observer (Leedy, 1997: 191). The questionnaire used in this study was developed using information gleaned from the literature study (discussed in Chapters One to Three). The questions were selected to address the factors impacting on the barriers encountered when entering foreign markets, as well as possible solutions to those barriers.

**Instructions:** The instructions in a questionnaire must ensure that all respondents are treated equally. Two principles form the foundation for good instructions: clarity and courtesy. These two principals were used in the development of the questionnaire.

**Types of questions used:** Riley et al. (1998: 82) state that there may be open and closed questions. A closed question is one where responses are restricted to a small set of responses that generate precise answers. Open-ended questions do not impose restrictions on the possible answer, but are difficult to aggregate and computerise. However, the response is often richer and deeper. Jancowicz (2000: 269) notes that a structured questionnaire must provide questions possessing an element of “steering” information for the respondent without any prompting from the researcher. This is the method that was used in the questionnaire developed for the empirical study.

The questionnaire was divided into four parts:

**Part 1** consisted of biographical questions that offered choices for the respondent to cross. Questions in this section surveyed the position of the respondent in his organisation, number of years’ work experience, number of years’ work experience dealing directly with exports, which department other than the export department the respondent was working in, the position of the respondent in the organisation, number of employees in the organisation, original equipment manufacturer or other related industry, the ownership of the organisation, and what sector the organisation operated in. Most questions were open-ended in nature.
Part 2 consisted of mostly closed questions and attempted to establish the reasons for organisations to export. The respondents were required to specify that they indeed exported to the United States, the European Union, or both, the mode of transport used in the export operation, the internal and external reasons they exported to those locations, and the type of relationships they had with their customers/suppliers abroad. Some of the questions required respondents to cross the relevant box, and others to rank the possibilities from most important to least important.

Part 3 was concerned with the establishing of what the respondents perceived as barriers to their export operation. First, they had to indicate the degree that certain barriers were hampering the export process, second, they had to rank the five listed barriers impacting most on their organisation, and third, to rank five possible solutions for their export problems.

Part 4 was concerned with strategic decisions and the minimising of risk in the organisation. The respondents were required to concur with each statement in order to determine which measures impacted most on the strategic direction, and diminished most the risk of the firm.

Some questions recorded the degree to which they concurred with certain statements; others required ranking in order of importance and the balance were “yes” or “no” type questions. The benefits of each method of questioning are set out below.

The Likert scale is the most widely used form of scaled items where the respondent chooses a point on a scale that best represents his/her view (Allison et al, 1996: 83). In this study, a five-point Likert–type scale was used. Scoring for the scale was follows; 1 indicated strong agreement, 2 agreements, 3 uncertainties, 4 disagreements and 5 strong disagreements. Riley et al. (1999: 121) add that the Likert scale must have some dividing point between positive and negative. This function is performed by the mid-point in this scale, which is neutral. The scale is used to measure a batch of attitudes that are added together for the researcher to draw conclusions.
In ordinal measurement, according to Singleton et al. (1993: 111), numbers are used to rank the order of cases on some variable. In this study, ordinal measurement was used to measure the intervals between variables pertaining to certain practices in the organisations surveyed. Singleton, Straits and Straits (1993: 112) feel that ordinal measurement is rather crude, and as such, few statistical operations may be used in their analysis.

**Wording of questions:** Thomas (1996: 121) states that questions should not lead respondents who do not have clear views of their own on a particular issue. Grammar should be simple, and the things that the respondents have to keep in mind in order to understand the question should be limited. Specific terms should be used in preference to abstract ones: this ensures that the respondent has a clear understanding of the question. Finally, the questions should be easy for the respondent to answer. For example “tick one box only”. Cooper and Schindler (1998: 332 – 333) note that it is impossible to say which wording of a question is best: there may be several areas that may cause a respondent’s confusion, and these result in measurement error.

Riley et al. (1999: 96 – 97) name the following key issues pertaining to questionnaire design:

- Use simple and concise language;
- Do not make unrealistic demands of those who fill in the questionnaire;
- Each question should ask about only one topic;
- Each question should have no “escape route”, for example, “don’t know”, “no comment”;
- Each question should be polite;
- Be straightforward and guard against double meanings;
- Get the question order right;
- Make the layout easy to follow;
- Give clear instructions; and
- Test the questionnaire first.
Cooper and Schindler (1998: 333) add that open-ended questions may be used for comments, and to capture any unusual circumstances not covered in the structured factor list.

**Length of questionnaire:** According to Thomas (1996: 121), a questionnaire should not be long and complicated. More pages with a clear and user-friendly layout are better than fewer pages with a cramped and forbidding layout.

The above principles were followed when drawing up the questionnaire. In addition, the draft questionnaire was tested in a pilot study.
To provide a clear understanding of why certain questions were included in the questionnaire, the discussion set out below will explain the rationale for the structure of each section of the questionnaire.

For ease of answering questions, and the subsequent analysis of data gathered in the empirical study, the questionnaire was divided into six sections. Each section will be discussed below.

Section 1: This section covered the demographical data of respondents. The data gathered in this section were independent variables that were used to establish relationships between the dependant variables measured in the rest of the questionnaire.

Section 2: The questions in this section confirmed whether the respondents’ organisations exported to the United States and/or the European Union. The importance the firm attached to this decision was established, along with the main reasons to export to these specific trading blocs. The data gathered in this section and the following sections were all dependent variables.

Section 3: In this section respondents were requested (1) to rank from a given list the five most influential internal factors for entering foreign markets; (2) to choose the five most important factors from a given list that influenced the growth success of the firm, and (3), to rank the five most important external factors influencing the firm to enter foreign markets. Respondents would indicate whether firms reacted proactively or reactively to exporting, and would thereby indicate the competitive advantage of firms.
Section 4: Section 4 investigated communications between the firm and its dealings abroad. This would establish the amount and types of communication between suppliers and customers. Should the empirical study reveal that there was frequent communication between the organisations and its customers and/or suppliers, it would imply that joint initiatives would be a distinct option with regard to alternative modes of entry in the future. In addition, this would amplify the importance of communication and the sharing of information for future exporting success. Information sharing contributes to the development of business relationships.

Section 5: This section was concerned with barriers in exporting. It requested respondents (1) to rank ten given barriers to exporting from very important to irrelevant; (2) to choose the five most important barriers from the listed ten, and (3), to rank out of a given set the five most important solutions to address those barriers. This section attempted to establish the most important export barriers. From this, firms that were contemplating exporting could make deductions and work out strategies.

Section 6: Section 6 measured the strategic decisions of a firm to create competitive advantage and to minimise risk in the export process. Respondents were requested to rank nine given statements between “strongly agree” and “strongly disagree”. From the results, the researcher would be enabled to determine what organisations experienced as risk-reducing strategies.

4.3.2 PROCESS OF SURVEY DESIGN

According to Riley et al. (1999: 97), the task of creating a questionnaire must be seen as a part of a larger application that involves not only the development, but its application too. They suggest the following process:
• Identify the topic and set objectives;
• Pilot the questionnaire to find out what people know and what they see as important issues;
• List the areas of information needed and refine the objectives;
• Review the pilot responses;
• Finalise the objectives;
• Draw up a questionnaire;
• Re-pilot the questionnaire;
• Finalise the questionnaire;
• Code the questionnaire.

Prior to conducting the pilot study, the questionnaire was checked by a senior lecturer, who was a member of staff at the MBA Unit at the Port Elizabeth Technikon, as well as by a statistician, and the necessary adjustments were made. Once these changes had been effected, the questionnaire was presented to 3 MBA group members studying at the Port Elizabeth Technikon, and a few more adjustments were made.

A pilot study has two main functions (Thomas, 1996: 122). The first is the development of instruments and procedures, where the pilot study is a step on the way towards the final design. This developmental pilot study may include features that may not be part of the main survey, such as asking respondents if they understood the questions in the way intended.

The second function is a rehearsal of instruments and procedures, where the aim is to fine-tune the design of the questionnaire. The results of the pilot survey for this project were not included in the survey results.
4.3.3 INTERNET SURVEY

Cooper and Schindler (1998:303) write that computer-delivered, self-administered questionnaires using organisational Intranets, the Internet, or online services, to reach their respondents, have special problems and unique advantages.

a) **Advantages**

- Rapid data collection;
- More complex instruments can be used;
- Respondents that cannot be reached by phone may be accessible;
- Fast access to the computer-literate;
- Listing of viable locations rather than prospective respondents.

b) **Disadvantages**

- Anxiety among some respondents;
- Computer security;
- Need for low-distraction environment for survey completion.

Cooper and Schindler (1998:308) continue that the ease of access to electronic mail systems makes it possible for both large and smaller organisations to use computer questioning with both internal and external respondent groups. Techniques for traditional mail surveys can be easily adapted to electronic questionnaires, and it is not unusual to find registration processes and full-scale surveying being done on World Wide Web sites.
4.3.4 ADMINISTERING THE QUESTIONNAIRE

The applicable telephone numbers of organisations in the Eastern Cape exporting to the European Union and the United States were obtained from the Department of Trade and Industry (DTI) and reputable shipping companies in Port Elizabeth that were willing to supply customer lists. The organisations were contacted to determine the responsible persons for the completion of the questionnaire, and the corresponding E-mail addresses. The questionnaire was E-mailed, together with a covering letter (see Annexure 4.2), on 30 May 2003. The aim of the covering letter was to provide the following information:

- The aim of the research;
- The fact that the questionnaire would take less than 20 minutes to complete;
- Reference to the E-mail address for returning purposes.

A cut-off date of 5 June 2003 was set for return of the completed questionnaires. On 4 June 2003 all companies that had not already responded were contacted, and reminded of the due date.

4.3.5 THE POPULATION

Lists of organisations obtained from the Department of Trade and Industry, as well as reputable shipping companies that were willing to supply a customer list, were used to obtain the names and E-mail addresses of the population to be studied. Because of the size of the population, it was decided to use a sample only. The population number was unknown since the Department of Trade and Industry (TDI) do not hold statistics for companies exporting to the United States. The Department of Trade and Industry estimated the number of companies exporting from the Eastern Cape to the European Union to be 70. This figure was inclusive of companies that exceed 500 employees. After companies that exceeded 500 employees were deducted, only 55 remained. This figure was supplemented by lists obtained from shipping companies, to arrive at a final population figure of 95 businesses exporting from the Eastern Cape to the United States and the European Union. This figure is believed to be a sizeable sample of all small and medium businesses exporting to these parts of the world.

Table 4.1 Number of companies to be surveyed

<table>
<thead>
<tr>
<th>TRADING BLOCK</th>
<th>NUMBER OF COMPANIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union</td>
<td>16</td>
</tr>
<tr>
<td>United States</td>
<td>1</td>
</tr>
<tr>
<td>Both trading blocks</td>
<td>21</td>
</tr>
<tr>
<td>Not indicated</td>
<td>4</td>
</tr>
<tr>
<td>Unanswered</td>
<td>53</td>
</tr>
<tr>
<td>TOTAL</td>
<td>95</td>
</tr>
</tbody>
</table>
Source: Lists of companies exporting to the European Union and United States were obtained from the Department of Trade and Industry (DTI) and from reputable selected shipping companies.

Based on the lists shown above, each company was contacted, the names and E-mail addresses of the available general manager, director, manager or owner were obtained, and a questionnaire was sent to each E-mail address. The reason for the selection of these persons as possible respondents was the strategic nature of the job, and as such, knowledge of strategic initiatives regarding exporting. Some companies were small and did not have an export manager, and therefore any available manager was approached.

4.3.6 RESPONSE RATE

The response rate for the questionnaires as at 5 June 2003 is shown in Table 4.2 below.
Table 4.2  Responses on or before due date

<table>
<thead>
<tr>
<th>AREA</th>
<th>RESPONSES</th>
<th>QUESTIONNAIRES</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Cape</td>
<td>42</td>
<td>95</td>
<td>44.21</td>
</tr>
</tbody>
</table>

Source: Responses from E-mail survey.

From the above, it can be seen that the response from companies approached was excellent, considering that the due date for returning the questionnaire was only one week after being E-mailed. No extension for completing the questionnaire was deemed necessary.

According to Welman and Kruger (1999: 152), responses frequently fall below fifty percent. Emory and Cooper (1991: 333) state that thirty percent is an acceptable response rate for postal surveys. The response rate of 44.21 percent was acceptable.

4.3.7  ANALYSIS OF DEMOGRAPHIC INFORMATION

Part 1 of the questionnaire required respondents to complete general information about their positions and their organisations. These questions were designed to highlight independent variables that could then be used to facilitate comparisons between responses to the dependent variables in the study, namely responses to questions in Parts 2, 3 and 4.

The results of the questions posed in Part 1 are provided in Tables 4.3 to 4.10 set out below.
Table 4.3  Respondents by position in the organisation

<table>
<thead>
<tr>
<th>POSITION</th>
<th>RESPONSE FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Manager</td>
<td>2</td>
<td>4.76</td>
</tr>
<tr>
<td>Director</td>
<td>6</td>
<td>14.29</td>
</tr>
<tr>
<td>Manager</td>
<td>19</td>
<td>45.24</td>
</tr>
<tr>
<td>Owner</td>
<td>5</td>
<td>11.90</td>
</tr>
<tr>
<td>Other</td>
<td>10</td>
<td>23.81</td>
</tr>
<tr>
<td>Unanswered</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>TOTAL</td>
<td>42</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Results obtained from analysis of respondents’ position in the organisation.

Table 4.3 shows that managers made up the biggest percentage (45.24 percent). The percentage under “Other” consisted of people calling themselves export controllers, logistics controllers, office managers, etcetera. It appears that most of these respondents generally had a position somewhere in the supply chain of the organisation.

Table 4.4  Respondents by work experience

<table>
<thead>
<tr>
<th>WORK EXPERIENCE</th>
<th>RESPONSE FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 5</td>
<td>6</td>
<td>14.29</td>
</tr>
<tr>
<td>6 to 10</td>
<td>8</td>
<td>19.05</td>
</tr>
<tr>
<td>11 to 15</td>
<td>3</td>
<td>7.14</td>
</tr>
<tr>
<td>16 &amp; more</td>
<td>25</td>
<td>59.52</td>
</tr>
<tr>
<td>Unanswered</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>TOTAL</td>
<td>42</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Results obtained from analysis of respondents’ work experience.

It is evident from Table 4.4 that 33.34 percent of the respondents had less than 10 years’ work experience. The fact that 59.52 percent of the respondents had 16 years’ or more experience indicated that the task of completing the questionnaire was left to experienced personnel in the organisation.

Table 4.5  Respondents by export experience

<table>
<thead>
<tr>
<th>EXPORT EXPERIENCE</th>
<th>RESPONSE FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 5</td>
<td>18</td>
<td>42.86</td>
</tr>
<tr>
<td>6 to 10</td>
<td>13</td>
<td>30.95</td>
</tr>
<tr>
<td>11 to 15</td>
<td>2</td>
<td>4.76</td>
</tr>
<tr>
<td>16 &amp; more</td>
<td>9</td>
<td>21.43</td>
</tr>
<tr>
<td>Unanswered</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>TOTAL</td>
<td>42</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Summary of export experience participating in the study.

Table 4.5 indicates that 73.81 percent of the respondents had 10 years’ and less experience of dealing directly with exports. This left only 26.19 percent of the
respondents with more than 10 years’ exporting experience. Even after the respondents were split into two groups (companies with 50 and less employees and companies with more than 50 employees) it was found that no real difference existed between the two groups where export experience was concerned.

Table 4.6  Respondents by area of responsibility other than the Export Department

<table>
<thead>
<tr>
<th>AREA OF RESPONSIBILITY</th>
<th>RESPONSE FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources</td>
<td>3</td>
<td>7.14</td>
</tr>
<tr>
<td>Supply Chain</td>
<td>9</td>
<td>21.43</td>
</tr>
<tr>
<td>R &amp; D</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Marketing</td>
<td>7</td>
<td>16.67</td>
</tr>
<tr>
<td>Sales</td>
<td>6</td>
<td>14.28</td>
</tr>
<tr>
<td>Finance</td>
<td>8</td>
<td>19.05</td>
</tr>
<tr>
<td>Other</td>
<td>6</td>
<td>14.29</td>
</tr>
<tr>
<td>Unanswered</td>
<td>3</td>
<td>7.14</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>42</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Results obtained from analysis of products manufactured
The responsibility to complete the questionnaire was spread more or less evenly throughout the organisations across functional departments, as indicated by Table 4.6. Since this was an open-ended question, respondents indicated under “Other” their export-related positions, although this was not intended.

Table 4.7  Respondents by the size of organisation

<table>
<thead>
<tr>
<th>SIZE OF ORGANISATION</th>
<th>RESPONSE FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 50</td>
<td>22</td>
<td>52.38</td>
</tr>
<tr>
<td>51 to 100</td>
<td>8</td>
<td>19.05</td>
</tr>
<tr>
<td>101 to 200</td>
<td>7</td>
<td>16.67</td>
</tr>
<tr>
<td>201 to 300</td>
<td>2</td>
<td>4.76</td>
</tr>
<tr>
<td>301 to 400</td>
<td>2</td>
<td>4.76</td>
</tr>
<tr>
<td>401 to 500</td>
<td>1</td>
<td>2.38</td>
</tr>
<tr>
<td>Over 500</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Unanswered</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>42</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Analysis of organisation sizes.

Table 4.7 suggests that 52.38 percent of the organisations responding to the questionnaire came from firms with 50 employees or less, 19.05 percent from firms with 51 to 100 employees, and 16.67 percent from firms with 101 to 200 employees. The remainder of the respondents (11.9 percent) was made up of the remaining four categories. This suggests that the Eastern Cape is following the world trend, where small firms conduct the bulk of exporting activities.

Table 4.8  Respondents by the nature of the business

<table>
<thead>
<tr>
<th>NATURE OF THE BUSINESS</th>
<th>RESPONSE FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
</table>
Table 4.8 indicates that apart from “Other”, the section “Complete products” was the largest percentage (26.19 percent). What is interesting is the fact that the category “component manufacturing” supplied solely for the motor industry (19.05 percent). The category “Other” consisted of rubber and plastics, the engineering sector, textile processing and plant exporters. Table 4.8 further shows that a good cross-section of industries was surveyed, which should increase the validity of the study.

Table 4.9 Respondents by the type of ownership

<table>
<thead>
<tr>
<th>TYPE OF OWNERSHIP</th>
<th>RESPONSE FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholly owned subsidiary</td>
<td>9</td>
<td>21.43</td>
</tr>
<tr>
<td>Private company</td>
<td>18</td>
<td>42.87</td>
</tr>
<tr>
<td>Partnership</td>
<td>5</td>
<td>11.90</td>
</tr>
<tr>
<td>Close corporation</td>
<td>3</td>
<td>7.14</td>
</tr>
<tr>
<td>Trust</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Sole proprietor</td>
<td>2</td>
<td>4.76</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
<td>11.90</td>
</tr>
<tr>
<td>Unanswered</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>TOTAL</td>
<td>42</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Analysis of the legal entities participating in the study.

The largest percentage of ownership in Table 4.9 was portrayed as private companies. What is interesting is that even after the respondents were split into two groups (companies with 50 and less employees and companies with more than 50 employees) private companies were precisely equally divided with nine each. The first category, which was the second-largest type of ownership, wholly owned subsidiaries, allowed for easy flow of information and knowledge of best practice. When the respondents were split, however, only three wholly owned subsidiaries were found under companies with 50 or less employees. It thus seems that wholly owned exporting subsidiaries generally have more than 50 employees. A troublesome phenomenon is the fact that only two sole proprietors were exporting their products. This may be interpreted as the economic climate and economic support system not promoting sole proprietors to export.
Table 4.10  Respondents per economic sector

<table>
<thead>
<tr>
<th>ECONOMIC SECTOR</th>
<th>RESPONSE FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive</td>
<td>13</td>
<td>30.95</td>
</tr>
<tr>
<td>Food and beverages</td>
<td>6</td>
<td>14.29</td>
</tr>
<tr>
<td>Electronic and electrical</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Engineering and machinery</td>
<td>2</td>
<td>4.76</td>
</tr>
<tr>
<td>Information technology</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Other</td>
<td>17</td>
<td>40.48</td>
</tr>
<tr>
<td>Unanswered</td>
<td>4</td>
<td>9.52</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>42</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: Results obtained from analysis of economic sectors.

With the motor vehicle hub in the Nelson Mandela Metropole and East London, it is small wonder that 30.95 percent of respondents were from that sector, as depicted by Table 4.10. What is not shown in the above table is that 15 percent of respondents were from the agricultural sector. The respondents are thus spread across various industries, adding to the randomness of the sample taken.

4.4 SUMMARY

The aim of this chapter was to document the planning and the process used in the empirical study, as well as providing a quantitative analysis of the demographic details of respondents. This was conducted through a brief overview of literature relevant to the research methodology, as well as detailed documentation of the process used to glean information from the respondents. The demographic details of the respondents reported in Part 1 of the questionnaire was presented in tabular form.

Chapter Five deals with an analysis of the data gathered in Parts 2, 3 and 4 of the questionnaire. It will start with a summary; will offer an analysis of the data with the relevant recommendations and conclusions; and will be concluded with a summary and conclusion that will offer opportunities for further research.
CHAPTER FIVE
FINDINGS, RECOMMENDATIONS AND CONCLUSIONS OF THE EMPIRICAL STUDY

5.1 INTRODUCTION

The aim of this chapter is to analyse and document the results obtained from the empirical study to solve sub-problem four: What do knowledgeable people feel are barriers to entering foreign markets, and how can Small and Medium Enterprises overcome these barriers?

The questionnaire was divided into four parts and six sections:

- Part 1 of the questionnaire is concerned with the demographics of the respondents, and was analysed and discussed in Chapter Four.
- Part 2 is divided into three sections, namely Section 2, 3 and 4, and attempts to determine the reasons for firms exporting their products.
- Part 3 of the questionnaire is concerned with what the respondents perceive as barriers to the exporting drive. Firms that are contemplating export initiatives can take note of the results obtained, and introduce strategies to avoid these inhibiting factors.
- Part 4 is concerned with strategic decisions and the minimising of risk. The aim here is to create competitive advantage for the prospective exporter.

Leedy and Ormrod (2001:27) state that measurement is ultimately a comparison: “a thing or concept measured against a point of limitation.” The results obtained will be discussed, and a recommendation and conclusion will be offered to each part. This practical survey will be related back to theory where applicable.

Five possibilities were given for each question in the greater part of the questionnaire. Responses will be converted to percentages, and the positive aspect of each question (options one and two), as well as the negative aspect (options four and five), will be combined to facilitate the ease of discussion and to facilitate comparison. Three will be
regarded as neutral. Respondents will be split between small and medium firms where applicable, in order to facilitate findings where conflicting points of view exist.

Once this has been done, the main problem, “What factors inhibit Small and Medium Enterprises from exporting their products?” will be successfully resolved.

5.2.4 ANALYSIS OF THE QUESTIONNAIRE

Leedy and Ormrod (2001:259) maintain that inferential statistics allow us to make inferences about large populations by collecting data on relatively small samples. The following questions were asked and analysed, to gather data to enable the researcher to make assumptions from the results of the data.

5.2.1 ANALYSIS OF ENTRY DECISIONS

Doole and Lowe (2001:197) state that the proactive exporter is focused on export markets, and devotes substantial amounts of time and resources to entering and developing new markets.

Doole and Lowe (2001:198) continues by identifying key areas that the SME needs to focus on, in order to ensure success:

- developing the characteristics of the learning organisation;
- developing effective relationships; and
- having a clear international competitive focus.

Albaum et al. (1994:222) are of the opinion that appraising a country is not easy, and that it can be costly – both in terms of time and money.
This section has a bearing on Part 2 (and Section 2) of the questionnaire, and determines the reasons for firms exporting their products. The results of the first group in this section are displayed in Figure 5.1.

a) The specific states/countries the firm exports to

![Figure 5.1 Favourite exporting countries](image)

Source: Responses from E-mail survey.

Figure 5.1 demonstrates the top five export destinations. Since one firm frequently exports to several countries, it is not possible to add the responses or percentages together. Germany is clearly the most favourite export destination (45.24 percent) and Italy (11.9 percent) is in the fifth position.

b) Modes of transport used in the export process

<table>
<thead>
<tr>
<th>Mode</th>
<th>Response</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air</td>
<td>21</td>
<td>50.00</td>
</tr>
<tr>
<td>Sea</td>
<td>35</td>
<td>83.33</td>
</tr>
</tbody>
</table>

Source: Results obtained from the most-used mode of transport.
In Table 5.1 it is clear that the most preferred export method is by sea. Once again, it is not possible to add the responses or percentages, since some firms utilise more than one export mode.

c) The geographic location and competitive advantage

Doole and Lowe (2001:417) state that exporters are driven by the continual need to reduce costs, and that companies have increasingly considered selective location or relocation of production facilities. As firms increasingly market their products globally, so their choice of manufacturing location is determined by many other considerations than simply being close to particular markets.

The respondents were asked to tick in the appropriate block only, answering “yes” or “no”.

Table 5.2 Location creating competitive advantage

<table>
<thead>
<tr>
<th>Type of Response</th>
<th>Response Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>21</td>
<td>50.00</td>
</tr>
<tr>
<td>No</td>
<td>21</td>
<td>50.00</td>
</tr>
<tr>
<td>TOTAL</td>
<td>42</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Results obtained from location giving a competitive advantage.

Half of the respondents considered that their geographical location gave them a competitive advantage, and the other half did not.

d) Importance for respondents to be involved in exporting to the United States and the European Unions.

One is considered to be “very important”, two is “important”, three is “neutral”, four is “not important”, and five is “irrelevant”.

______________________________
Table 5.3 Importance of the United States and European Union export markets

<table>
<thead>
<tr>
<th>How important for your organisation is it to be involved in exporting to the US and the EU?</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>30.59</td>
<td>16.67</td>
<td>0.00</td>
<td>2.38</td>
<td>2.38</td>
<td></td>
</tr>
</tbody>
</table>

Source: Results obtained from analysis of importance of export market. 47.26 percent of the respondents’ indications range from “important” to “very important”. 4.76 percent of the respondents’ indications range from “not important” to “irrelevant”. 47.98 percent of the respondents did not answer the question. The overall rating of the respondents that did answer the question is that it is very important to export to these two trading blocks.

e) Reasons for exporting to the United States and the European Union

Albaum et al (1994:151) is of the opinion that rather than viewing entry strategy as a simple plan, in practice it is actually a summation of individual product or market plans. Each target market is unique in some ways and each product has unique market needs. Therefore managers need to plan the entry strategy for each product in each foreign market.

One is considered to be “very important”, two is “important”, three is “neutral”, four is “not important”, and five is “irrelevant”.

Table 5.4 Results of Reasons for exporting

<table>
<thead>
<tr>
<th>Why is the organisation exporting to that specific state/country?</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>1. Effective distribution channel</td>
<td>33.33</td>
<td>21.21</td>
<td>18.18</td>
<td>12.12</td>
<td>15.15</td>
</tr>
<tr>
<td>2. Location of export agent or marketing house</td>
<td>37.14</td>
<td>22.86</td>
<td>8.57</td>
<td>14.29</td>
<td>17.14</td>
</tr>
<tr>
<td>3. Favourable tariffs</td>
<td>9.10</td>
<td>33.33</td>
<td>24.24</td>
<td>12.12</td>
<td>21.21</td>
</tr>
<tr>
<td>4. Simpler customs procedures</td>
<td>12.12</td>
<td>15.15</td>
<td>36.36</td>
<td>15.15</td>
<td>21.21</td>
</tr>
<tr>
<td>5. Proximity of port or airport to target markets</td>
<td>18.18</td>
<td>24.24</td>
<td>36.36</td>
<td>3.03</td>
<td>18.18</td>
</tr>
</tbody>
</table>
Doole and Lowe (2001:221) states that globalisation of distribution is occurring, first, as the supply chain becomes increasingly concentrated on fewer, more powerful channel distributions and, second, as e-business technology revolutionises the exchange and transfer of date.

Doole and Lowe (2001:259) conclude that, once individual markets have been selected, the decision should be taken about precisely how the firm should be presented in the new market. The selection of suitable agents can be a problematic process.

The results in Table 5.4 can be described as follows:

1) From Table 5.4 it is clear that 54.54 percent of the respondents consider an effective distribution channel as “important” or “very important” for exporting to that specific state/country.

2) It is also evident that the location of the export agent or marketing house is important, since 60 percent of respondents view it either as “important” or “very important”.

3) Favourable tariffs, (42.43 percent) indicate it as “important” to “very important”, while 33.33 percent indicate it as “not important” to “irrelevant”. 24.24 percent of the respondents indicate the influence of favourable tariffs to be “neutral”.
4) *Simpler customs procedures*, 27.27 percent indicate that it is important or very important, while 36.36 percent indicate that it is “not important” or “irrelevant”. 36.36 percent of respondents indicate simpler customs procedures as “neutral”.

5) *The proximity of port or airport to target markets* is considered by 42.42 percent of the respondents to be “important” or “very important”. 21.21 percent consider it to be “less important” or “irrelevant”.

6) *Proximity of the customer* yielded the biggest response – 66.67 percent of respondents indicate it as either “important” or “very important” in the export effort.

In order to further investigate this conflicting phenomenon regarding favourable tariffs and simpler customs procedures, the respondents were divided into two groups – companies with 50 and less employees (22), and companies with more than 50 employees (20). The results are indicated in Table 5.5 and 5.6 below.

### Table 5.5 Importance of favourable tariffs and custom procedure to small firms

<table>
<thead>
<tr>
<th>Why is the organisation exporting to those specific state/country?</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Favourable tariffs</td>
<td>13.33</td>
<td>33.33</td>
<td>40.00</td>
<td>6.67</td>
<td>6.67</td>
</tr>
<tr>
<td>Simpler customs procedures</td>
<td>20.00</td>
<td>20.00</td>
<td>40.00</td>
<td>13.33</td>
<td>6.67</td>
</tr>
</tbody>
</table>

Source: Analysis of importance to small firms.

![Figure 5.3 Importance of favourable tariffs and custom procedures to small firms](source)

Source: Schematic representation of the analysis of importance to small firms.
Hill (2003:524) states that exporting is not only for large business, and that many small businesses have benefited significantly from the gradual decline in trade barriers under the World Trade Organisation. Nevertheless, small enterprises can find this process intimidating. Hill (2003:525) continues by stating that, according to a United Nations (UN) report on trade and development, a typical international trade transaction may involve 30 parties, 60 original documents, and 360 document copies, all of which have to be checked, transmitted, re-entered into various information systems, processed, and filed.

From Table 5.5 it can be seen that 46.66 percent of the respondents see favourable tariffs as “important” or “very important”, while 40 percent are “neutral” on the matter. It can, however, be argued that only 13.34 percent of respondents in firms smaller than 50 employees consider favourable tariffs to be “not important” or “irrelevant”.

Simpler customs procedures, too, seem to yield a high “neutral” response (40 percent). Firms that do see simpler customs procedures as important (40 percent) are markedly higher in favour than firms that consider the matter “not important” or “irrelevant” (20 percent).

**Table 5.6 Importance of favourable tariffs and customs procedures to medium firms**

<table>
<thead>
<tr>
<th>Why is the organisation exporting to those specific state/country?</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Favourable tariffs</td>
<td>5.88</td>
<td>35.29</td>
<td>5.88</td>
<td>17.66</td>
<td>35.29</td>
</tr>
<tr>
<td>Simpler customs procedures</td>
<td>5.56</td>
<td>11.11</td>
<td>27.78</td>
<td>16.67</td>
<td>38.89</td>
</tr>
</tbody>
</table>

Source: Analysis of importance to medium firms.
From Table 5.6 it can be seen that 52.95 percent of the respondents view favourable tariffs as being “not important” or “irrelevant” in medium-sized firms (51 – 500 employees). This is directly opposite to the findings with small firms (1 – 50 employee) that view favourable tariffs to be “important” to “very important” (46.66).

The results on simpler customs procedures indicate the same phenomenon in Table 5.6, where 55.56 percent of the medium-sized firms in the study consider it not important or irrelevant. When comparing this with the results in Table 5.5 (40 percent that indicate it as important to very important), it seems that bigger firms are less influenced by such constraints.

f) Recommendation

Beamish, Morrison and Rosenzweig (1997:42) state that managers must bear in mind that the goal of international trade operations is to increase the value of the firm; exports for export’s sake have no goal.

If firms, for whatever reason, do not consider location as being to their competitive advantage, they must consider relocating.
Small and medium firms can benefit if they investigate the opportunities offered under the two major trade agreements. It seems that they are oblivious to the opportunities on offer.

**g) Conclusion**

Since 45 percent of respondents export to Germany, it is assumed that German tastes or preferences to some extent coincide with those of South Africa. The possibility that easier access is gained to the European Union through Germany can also not be ruled out without further study.

Factors other than being located close to one's customers play a role in the geographic location of the business. In analysing reasons why firms export their products to specific countries, it was found that location of the customer, location of the export agent or marketing house, and an effective distribution channel were rated the most important factors. This suggests that tariff barriers, as well as complex customs procedures, play a secondary role to factors like product demand, marketing communication and logistics. Karamally (1998:112) stresses that the value of local connections and cultural affinity are hard to duplicate. It is of great importance that firms evaluate all these factors in their own circumstances, and on this basis locate or relocate their business to obtain competitive advantage.

Further analysis revealed that small firms view tariffs and customs procedures as far more important than medium-sized firms. This suggests that bigger firms obtain competencies and devise strategies to overcome these obstacles.

### 5.2.2 FACTORS PROMOTING COMPETITIVE ADVANTAGE

This part of the study has bearing on Part 2 (and section 3) of the questionnaire, and requested respondents to choose the five most influential internal factors that affect the decision to enter foreign markets.
Internal and external stimuli are represented in (a) and (c) in the next section.

a) The five most influential factors that affect the decision to enter foreign markets

Beamish et al. (1997:77) state that unplanned entries into exporting may come from internal factors, such as overproduction, declining domestic sales, and excess capacity.

At this point in the questionnaire, the respondents were also requested to rank the statements on a scale of one to five, with one being the “most important” and five the “least important”. The results are displayed in Table 5.7 below.

**Table 5.7 Most influential decisions to start exporting**

<table>
<thead>
<tr>
<th>Please choose the five most influential factors to enter foreign markets and rank them</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>1. Sell off excessive production</td>
<td>8.82</td>
<td>5.88</td>
<td>5.88</td>
<td>8.82</td>
<td>68.57</td>
</tr>
<tr>
<td>2. Domestic market saturation</td>
<td>20.59</td>
<td>17.67</td>
<td>20.59</td>
<td>20.59</td>
<td>20.59</td>
</tr>
<tr>
<td>4. Take advantage of economies of scale</td>
<td>17.14</td>
<td>22.86</td>
<td>34.29</td>
<td>11.43</td>
<td>14.29</td>
</tr>
<tr>
<td>5. Firm strategy</td>
<td>44.74</td>
<td>28.95</td>
<td>18.42</td>
<td>5.26</td>
<td>2.63</td>
</tr>
</tbody>
</table>

Source: Analysis of reasons for respondents to start exporting.

[Figure 5.5 Most influential decisions to start exporting]

Source: Graphical display of analysis in Table 5.7.
From Table 5.7 it is evident that most respondents (77.39 percent) consider selling off excessive production to be “less” and “least important”. Domestic market saturation did not yield conclusive distinctions between “more” to “most important” (38.26 percent) and “less” to “least important” (41.18 percent). No clear conclusions can be drawn from this equal spread.

The statement regarding the maintenance of the foreign market position yielded a score of 53.65 percent as being “more” to “most important”. This figure is significant when comparing it to the 24.39 percent of the respondents that view it as “less” to “least important”.

In Table 5.7, the statement on taking advantage of the economics of scale produced responses that range from 40 percent who see it as “important” to “most important”, as opposed to 25.72 that consider it to be “less important” to “least important”. Seeing that 34.29 percent are undecided, conclusions will be biased.

Firm strategy is considered to be “more” to “most important” (73.69 percent) in the respondents’ decisions. Only 7.89 percent consider it to be “less” to “least important”.

Since no clear indication could be obtained from two statements, namely domestic market saturation and taking advantage of economics of scale, it was decided to once again split the population into small firms (firms from 1 to 50 employees) and medium firms (51 to 500 employees). The results of the decision are portrayed in Table 5.8 and Table 5.9 that follow.
Table 5.8  Most influential decisions to start exporting for small firms

<table>
<thead>
<tr>
<th>Please choose the five most influential factors to enter foreign markets and rank them</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>%  %  %  %  %</td>
<td>----</td>
<td>----</td>
<td>----</td>
<td>----</td>
<td>----</td>
</tr>
<tr>
<td>Domestic market saturation</td>
<td>14.29</td>
<td>21.43</td>
<td>21.43</td>
<td>28.57</td>
<td>21.43</td>
</tr>
<tr>
<td>Take advantage of economics of scale</td>
<td>6.25</td>
<td>25.00</td>
<td>37.50</td>
<td>6.25</td>
<td>25.00</td>
</tr>
</tbody>
</table>

Source: Analysis of reasons for small firms to start exporting.

From Table 5.8 it can be seen that domestic market saturation plays a “less” to “least important” role (50 percent) in small firms of one to fifty employees. That can be compared with 35.72 percent of small firms that do consider it to be “important” to “very important”.

It is also evident from the above table, that just as many respondents consider taking advantage of economies of scale as “important”, as those that do not consider it important (31.25 percent at either end of the scale). It is important to note that 37.50 percent of respondents do not consider economies of scale to be a factor in small firms.
Table 5.9  Most influential decisions to start exporting for medium firms

Please choose the five most influential factors to enter foreign markets and rank them

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic market saturation</td>
<td>22.22%</td>
<td>22.22%</td>
<td>16.67%</td>
<td>16.67%</td>
<td>22.22%</td>
</tr>
<tr>
<td>Take advantage of economics of scale</td>
<td>26.32%</td>
<td>21.05%</td>
<td>31.58%</td>
<td>15.79%</td>
<td>5.26%</td>
</tr>
</tbody>
</table>

Source: Analysis of medium firms for starting exporting.

Figure 5.7 Most influential decisions to start exporting for medium firms

Source: Graphical portrayal of analysis conducted in Table 5.9.

Domestic market saturation in Table 5.9 shifts more to “important” and “most important” (44.4 percent), as the firms get bigger. This is up from 35.72 percent in Table 5.8, that includes small firms (1 to 50 employees). The value in Table 5.9 (44.44 percent) in favour of domestic market saturation is, however, only marginally bigger than the respondents considering it “not important” to “least important” (38.89 percent).

In Table 5.9, taking advantage of economies of scale produced a result of 47.37 percent in favour of more “important” to “most important”. When compared with “less” to “least important” (21.05 percent) it indicates a significant difference. The responses obtained in Table 5.9 also show an increase compared with Table 5.8 (up from 31.25 percent to 47.37 percent).

b) The five most important factors for the growth success of firms
Active international involvement signifies a systematic exploration of marketing opportunities imposing demands on the resources of a firm – physical, financial and managerial, which will test the willingness of management to allocate these resources. Smaller firms face a disadvantage in not being able to commit resources, and financial incentives do not immediately change matters. Another major determinant of active involvement in international trade is managements’ experience-based expectations of the attractiveness of exporting for the firm (Paliwoda, 1993:14).

Beamish et al. (1997:78) support this view, adding that most firms initially develop, produce, and market products for their domestic markets, without regard for export markets. They may even turn down orders from abroad. If a firm continues to receive unsolicited orders, it may move towards filling orders as they are received, despite problems that may arise. Gradually, the firm develops management expertise in the basic mechanics of exporting, and these orders begin to become a significant part of sales.

In this question, respondents were asked to choose the five most important factors and to rank them, with one being the “most important” and five the “least important”. The results of the question are depicted in Table 5.10 below.

<table>
<thead>
<tr>
<th>Table 5.10 Most important growth factors for the exporting organisations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Please choose the five most important factors to the growth success of your organisation and rank them</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>1. Entering EU or US markets?</td>
</tr>
<tr>
<td>2. Deciding what market to enter?</td>
</tr>
<tr>
<td>4. Deciding how to enter (agents, export houses, etc)?</td>
</tr>
</tbody>
</table>
Please choose the five most important factors to the growth success of your organisation and rank them

<table>
<thead>
<tr>
<th>Item Number</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>%</th>
<th>%</th>
<th>%</th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. Culture of the foreign country?</td>
<td>9.38</td>
<td>21.87</td>
<td>21.87</td>
<td>12.50</td>
<td>34.38</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Overseas contacts?</td>
<td>59.38</td>
<td>28.12</td>
<td>0.00</td>
<td>0.00</td>
<td>12.50</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Analysis of most important growth factors.

The five most important factors are ranked as follows:

1) **Overseas contacts** (the last factor in Table 5.10) were considered “important” to “very important” by 87.50 percent of the responders. Only 12.5 percent of the respondents were under the impression that it is not important to their firm’s growth success.

2) The first question in Table 5.10, namely the importance of entering EU and US markets obtained a figure of 62.16 percent as being “important” to “most important”. 32.44 percent respondents consider the decision to be “less” to “least important”.

3) Table 5.10 continues with the third growth factor, about deciding on the marketing programme. The respondents indicated that 41.18 percent consider it to be “important” to “very important”. However, 38.24 percent of the respondents indicated that they did not think it is important for the growth of the firm.
4) The growth factor of *deciding what market to enter* yielded a result of 37.84 percent of respondents regarding it as being “important” to “very important”, and 32.43 percent as “less important” to “least important”. No meaningful conclusion is possible, since the neutral figure (figure number three) yielded 29.73 percent.

5) The growth factor *Deciding how to enter (agents, exports house, etcetera)* yielded a response of only 35.29 percent of respondents that consider it to be “important” to “very important”. On the other hand, 44.12 percent of the respondents indicated it to be “less” to “least important”.

The second (*Deciding on what market to enter?*) and third (*Deciding on the marketing programme?*) possibilities produced marginally preferred choices only. It was therefore decided to investigate both options further by dividing the respondents into small firms (up to 50 employees) and medium firms (from 51 to 500 employees). Tables 5.11 and 5.12 produce the results of the further investigation.

**Table 5.11 Most important growth factors for the small exporting organisation**

<table>
<thead>
<tr>
<th>Choose the five most important factors to the growth success of your firm and rank them</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Deciding what market to enter?</td>
<td>16.67</td>
<td>16.67</td>
<td>27.78</td>
<td>5.56</td>
<td>33.34</td>
</tr>
<tr>
<td>Deciding on the marketing programme?</td>
<td>11.11</td>
<td>11.11</td>
<td>27.78</td>
<td>27.78</td>
<td>22.22</td>
</tr>
</tbody>
</table>

Source: Analysis of most important growth factors for small firms.
From Table 5.11 it can be seen that only a small difference exists in small firms between those respondents that do rank the decision of what markets to enter (33.34 percent) against those that do not (38.90 percent). This is the reverse of what was found in Table 5.10, where the opposite was true.

In the second question about the importance of the marketing programme, the responses found in Table 5.11 showed 50 percent for small businesses that do not consider it to be important. This too, is the reverse of the finding in Table 5.10.

**Table 5.12 Most important growth factors for the medium-exporting organisation**

<table>
<thead>
<tr>
<th>Choose the five most important factors to the growth success of your firm and rank them</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Deciding what market to enter?</td>
<td>31.58</td>
<td>10.52</td>
<td>31.58</td>
<td>0.00</td>
<td>26.32</td>
</tr>
<tr>
<td>Deciding on the marketing programme?</td>
<td>11.76</td>
<td>52.94</td>
<td>11.76</td>
<td>11.76</td>
<td>11.76</td>
</tr>
</tbody>
</table>
From Table 5.12 it can be seen that on the first question, namely *deciding on what markets to enter*, 42.1 percent of respondents in medium firms consider it to be important, opposed to only 26.32 percent that do not. This coincides with the trend in Table 5.10.

The last question in Table 5.12, namely *the decision on the marketing programme*, 64.7 percent of respondents in medium firms deem it to be important. It seems that there are opposing views considering the results obtained in Table 5.11 and Table 5.12.

c) **The external factors that influence the organisation’s decisions when entering foreign countries**

Paliwoda (1993:14) says that non-exporters need stimuli to enter exporting. External stimuli often take the form of unsolicited orders from buyers, distributors abroad, or domestic export agents.

Respondents had to rank listed statements from one being the “most regular”, to five, the “least regular”. The results of the findings are documented in Table 5.13 that follows.

**Table 5.13**  *External factors that influence the organisation’s decisions when entering foreign countries*
Rank the external factors that influence your organisations’ decision in entering foreign states/countries

<table>
<thead>
<tr>
<th>Item Number</th>
<th>Factor Description</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>General market forces</td>
<td>39.47</td>
<td>21.05</td>
<td>15.79</td>
<td>10.53</td>
<td>13.16</td>
</tr>
<tr>
<td>2</td>
<td>Uncertainty in new markets</td>
<td>5.72</td>
<td>20.00</td>
<td>28.57</td>
<td>25.71</td>
<td>20.00</td>
</tr>
<tr>
<td>3</td>
<td>Uncertain distribution channels in new markets</td>
<td>5.72</td>
<td>14.28</td>
<td>22.86</td>
<td>28.57</td>
<td>28.57</td>
</tr>
<tr>
<td>4</td>
<td>Favourable trade relations (tariffs)</td>
<td>18.92</td>
<td>35.14</td>
<td>18.92</td>
<td>16.22</td>
<td>10.80</td>
</tr>
<tr>
<td>5</td>
<td>Take advantage of the weak Rand</td>
<td>50.00</td>
<td>25.00</td>
<td>10.00</td>
<td>2.50</td>
<td>12.50</td>
</tr>
<tr>
<td>6</td>
<td>Make use of opportunities created by AGOA or TDCA</td>
<td>14.29</td>
<td>14.29</td>
<td>33.33</td>
<td>9.52</td>
<td>28.57</td>
</tr>
<tr>
<td>7</td>
<td>Trade barriers imposed by trade blocks</td>
<td>0.00</td>
<td>13.64</td>
<td>27.27</td>
<td>9.09</td>
<td>50.00</td>
</tr>
</tbody>
</table>

Source: Analysis of external factors influencing the firm when exporting.

The most regular responses, in descending order, from Table 5.13 are as follows:

1) The item in Table 5.13 – *taking advantage of the weak Rand* – drew a 75 percent response from respondents that indicated it as influencing their organisations “regularly” or “most regularly”. Only 15 percent of respondents do not feel the same way.

2) Table 5.13 indicates that *general market forces* are considered by the respondents to influence their organisations “more” and “most regularly” 60.52 percent of the time. Organisations that do not feel the same way constitute only 23.69 percent.

3) *Favourable trade relations* are indicated as an area of concern – 54.06 percent of respondents feel their organisations are being influenced, while 27.02 feel they are not.
4) The statement, *to make use of opportunities created by the African Growth and Opportunities Act (AGOA) or the South Africa/European Trade Agreement (TDCA)*, elicited a 38.09 percent response whereby respondents feel their firms are being influenced “less” or “least regularly” by the agreements. 28.58 percent of the respondents feel their firms are “more” or “most regularly” being influenced by these trade agreements. However, 33.33 percent of the respondents feel they are not being influenced either way.
5) Firms feeling that they are influenced “more” and “most regularly” by uncertainty in new markets (sufficient demand, unknown customer preferences, etcetera) amount to 25.72 of the respondents. However, firms that feel that this happens “less” or “least regularly”, amount to 45.71 percent.

d) Relationships between the firm and its suppliers/customers

The following results and discussions have a bearing on Part 2, Section 4 of the questionnaire. Respondents were asked to rank, as depicted in Table 5.14, the most important means of contact with their suppliers/customers, one being the “most regular” and five the “least regular”.

Table 5.14 The most important means of contacting suppliers/ customers

<table>
<thead>
<tr>
<th>Rank the most important contact with the firm’s suppliers/customers</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>1. Face-to-face meetings</td>
<td>46.34</td>
<td>9.76</td>
<td>7.32</td>
<td>14.63</td>
<td>21.95</td>
</tr>
<tr>
<td>2. Telephone discussions</td>
<td>31.71</td>
<td>41.46</td>
<td>21.95</td>
<td>4.88</td>
<td>0.00</td>
</tr>
<tr>
<td>3. E-mail correspondence</td>
<td>52.50</td>
<td>22.50</td>
<td>20.00</td>
<td>5.00</td>
<td>0.00</td>
</tr>
<tr>
<td>4. Fax correspondence</td>
<td>12.50</td>
<td>32.50</td>
<td>30.00</td>
<td>15.00</td>
<td>10.00</td>
</tr>
<tr>
<td>5. Conference call</td>
<td>10.53</td>
<td>10.53</td>
<td>15.79</td>
<td>18.42</td>
<td>44.73</td>
</tr>
</tbody>
</table>

Source: An analysis of the most important contact for the firm when exporting.

Figure 5.12 The most important means of contacting suppliers/customers

Source: Schematic analysis of the most important contact for the firm when exporting.
The results documented in Table 5.14 can be ranked as follows:

1) *E-mail correspondence* is hailed by 75 percent of respondents to be “more” to “most important”. Respondents that feel otherwise amount to 5 percent.

2) A *telephone discussion* is considered to be “more” to “most important” for 73.17 percent of the time. Only 4.88 percent of respondents feel it to be “less important”.

3) In Table 5.14 *face-to-face meetings* are considered by the respondents to be “important” or “very important” (56.1 percent). However, 36.58 percent indicated it to be “less” or “least important”.

4) *Fax correspondence* in Table 5.14 is also an important means of communication since 45 percent of respondents rate it either “important” or “more important”, whereas 25 percent do not.

5) The last means of communication, *conference call*, elicited a response of 21.06 percent as “important” or “very important”. 63.15 percent of the respondents feel it is a “less” to “least important” method of communicating.

Whilst Table 5.14 ranks the most important means of communication, Table 5.15 lists the most commonly used manner of communicating:

**Table 5.15 The most common means of contacting suppliers/ customers**

<table>
<thead>
<tr>
<th>Rank the most important contact with the firm’s suppliers/customers</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>1. Face-to-face meetings</td>
<td>13.16</td>
<td>7.89</td>
<td>13.16</td>
<td>42.11</td>
<td>23.68</td>
</tr>
<tr>
<td>2. Telephone discussions</td>
<td>50.00</td>
<td>32.50</td>
<td>17.50</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>3. E-mail correspondence</td>
<td>75.00</td>
<td>17.50</td>
<td>5.00</td>
<td>0.00</td>
<td>2.50</td>
</tr>
<tr>
<td>4. Fax correspondence</td>
<td>13.88</td>
<td>30.56</td>
<td>41.67</td>
<td>2.78</td>
<td>11.11</td>
</tr>
<tr>
<td>5. Conference call</td>
<td>3.13</td>
<td>12.5</td>
<td>18.75</td>
<td>15.62</td>
<td>50.00</td>
</tr>
</tbody>
</table>

Source: An analysis of the most common contact for the firm when exporting.
The results of Table 5.15 can be ranked from one to five as follows:

1) Table 5.15 indicates that E-mail correspondence happens “frequently” or “very frequently” with 92.5 percent. Only 2.5 percent feel it does not.

2) From the foregoing table, 82.5 percent of respondents indicate that telephone discussions happen “frequently” or “very frequently”. No firms indicate that it is “not important” or “irrelevant”.

3) Fax correspondence seems less frequent since only 44.44 percent indicate it as occurring “frequently” or “very frequently”. Nevertheless, only 13.89 percent indicate it happens “not frequently” or is “irrelevant”.

4) Table 5.16 displays clearly that respondents indicate that face-to-face meetings happen “frequently” or “very frequently” with 21.05 percent. 65.79 percent indicate it as “not important” or “irrelevant”.

5) The last item from Table 5.15, conference call, received a 65.26 percent rating as happening “infrequently” or being “irrelevant”. Only 15.62 percent believe it is a valid way of communicating.

e) Recommendation

It seems that smaller firms are less concerned with growth factors such as deciding which markets to enter and the appropriate marketing programme, than more successful medium-sized firms. It is therefore not unreasonable to suspect that smaller firms would be more successful in their exporting endeavours should they direct their efforts more in these directions.
Hill (2003:527) states that a principal export strategy is to cultivate personal relationships when building an export business. Exporters need to take note of this fact, since respondents indicated that E-mail correspondence (75 percent) and telephone discussions (73.17 percent) are the most important means of communication. Face-to-face communication ranked third, with 56.1 percent.

f) Conclusion

It was found in the analysis of internal and external motives to enter foreign countries, that they complement each other in the following ways:

- Firm strategy (internal stimuli) and taking advantage of the weak Rand (external stimuli) respectively, are regarded by the respondents to be the most important factors. The assumption can therefore be made that respondents regard a relatively low cost base (in relation to other currencies) as a firm strategy.

- Maintaining the foreign market position (internal stimuli) and being subjected to general market forces (external stimuli) have a close correlation when entering foreign countries. They were rated as second most important internal and external factors that influence the export decision.

- Taking advantage of economies of scale (internal stimuli) and favourable trade relations (external stimuli) were both rated third most important internal and external factors in the study. This could suggest that firms enjoy full capacity while exporting their products, and that this may only be sustainable when favourable trade relations permit.

Paliwoda (1993:14) states that external stimuli exceed the number of internal stimuli received. Firms, which start exporting as a result of external enquiries, exemplify a passive approach to international marketing, with short-run profits being likely to be the motivating force, rather than clearly formulated long-term objectives. During the analysis of external and internal stimuli to export, in all instances, external stimuli received higher responses from respondents than did internal stimuli. This is consistent with the above theory.
Exporting to the European Union and the United States is regarded as the most important growth factor for the firms, which suggests that once a market is established in these markets, it is more lucrative than the domestic market.

5.2.3 BARRIERS IN EXPORTING

This discussion has a bearing on Part 3 of the questionnaire, and is concerned with what the respondents perceive as barriers to their export operation.

Paliwoda (1993:15) is of the opinion that the internationalisation approach does not appear to be a sequence of deliberately planned steps, beginning with a clearly defined problem and proceeding through a rational basis of behavioural alternatives. Personal characteristics of the decision-makers, lack of information, perception of risk and presence of uncertainty seem to be especially valuable in understanding a firm’s involvement in international trade.

a) Barriers hampering the export efforts of the organisation

Doole and Lowe (2001:182) consider too much red tape, trade barriers, transportation difficulties, lack of trained personnel, lack of export incentives, lack of coordinated assistance, unfavourable conditions overseas, slow payment by buyers, lack of competitive products, payment defaults and language barriers, as areas that non-exporters identified as barriers to entry.

In this section (Section 5 of the questionnaire) respondents were asked to rate 10 given barriers to exporting on a five-point scale, ranging from “very important” to “irrelevant”. The results of Section 5 are displayed in Table 5.16.
Table 5.16 Rating barriers that hamper the export effort

<table>
<thead>
<tr>
<th>Item Number</th>
<th>Percentage</th>
<th>Percentage</th>
<th>Percentage</th>
<th>Percentage</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The lack of exposure to other cultures makes identification of markets difficult</td>
<td>5.00</td>
<td>17.50</td>
<td>37.50</td>
<td>20.00</td>
<td>20.00</td>
</tr>
<tr>
<td>2. Lack of management time</td>
<td>5.00</td>
<td>22.50</td>
<td>27.50</td>
<td>22.50</td>
<td>22.50</td>
</tr>
<tr>
<td>3. The inability to find good agents or distributors and keeping them motivated</td>
<td>7.69</td>
<td>15.38</td>
<td>30.77</td>
<td>20.51</td>
<td>25.65</td>
</tr>
<tr>
<td>4. Voluminous paperwork and management of the export operation</td>
<td>13.16</td>
<td>13.16</td>
<td>34.21</td>
<td>31.58</td>
<td>7.89</td>
</tr>
<tr>
<td>5. Extensive modification needed to product or packaging</td>
<td>10.53</td>
<td>26.31</td>
<td>15.79</td>
<td>13.16</td>
<td>34.21</td>
</tr>
<tr>
<td>6. Difficulty in obtaining financing</td>
<td>5.00</td>
<td>12.50</td>
<td>30.00</td>
<td>20.00</td>
<td>32.50</td>
</tr>
<tr>
<td>8. The ability to control the foreign operation, channel policy and physical distribution</td>
<td>5.13</td>
<td>35.89</td>
<td>25.64</td>
<td>10.26</td>
<td>23.08</td>
</tr>
<tr>
<td>9. Language barriers</td>
<td>5.41</td>
<td>32.43</td>
<td>27.03</td>
<td>32.43</td>
<td>2.70</td>
</tr>
<tr>
<td>10. Cost of obtaining contract and/or servicing contract by flying overseas</td>
<td>2.78</td>
<td>27.78</td>
<td>27.78</td>
<td>25.00</td>
<td>16.66</td>
</tr>
</tbody>
</table>

Source: Results obtained from analysis of export barriers.

Figure 5.14 Rating barriers that hamper the export effort

Source: Schematic illustration of Table 5.16.

Table 5.16 gives a clear indication of what are considered important barriers to exporting. The respondents did not rate voluminous paperwork and language barriers as real problems. Even when the respondents were split into small firms (50
or less employees) and medium firms (51 to 500 employees), no meaningful difference could be detected.

The following is an interpretation of Table 5.16:

1) 40 percent of respondents feel that the lack of exposure to other cultures is “unimportant” or “irrelevant”. Only 22.5 percent of respondents feel it is a real problem.

2) Lack of management time is also not considered a valid problem since 45 percent, as opposed to 27.5 percent, rate it as “unimportant” or “irrelevant”.

3) The inability to find good agents or distributors and keeping them motivated receives a 46.16 percent response rate of being “unimportant” or “irrelevant”. Only 23.07 of respondents feel that it is a barrier to exporting.

4) Voluminous paperwork and management of the export operation are considered to be “important” with 26.32 percent. 39.47 percent indicated it as “not important” or “irrelevant”.

5) Extensive modifications needed to the product or packaging (the fifth barrier listed in Table 5.17) resulted in 36.84 percent respondents that feel it is “important” or “very important”. 47.37 percent of respondents rate it to be “unimportant” or “irrelevant”.

6) Difficulty in obtaining financing is considered by 17.5 percent as “important” and “very important”. 52.5 percent indicated it as “not important” or “irrelevant”.

7) Changing customs requirements received 45.95 percent as being “important” or “very important”. 32.43 of the respondents felt it to be “unimportant” or “irrelevant”.

8) The ability to control the foreign operation, channel policy or physical distribution (item number eight in Table 5.17) received 41.02 percent from respondents that feel that it is “important” or “very important”. 33.34 percent of respondents felt otherwise.

9) Language barriers received 37.84 percent from those that think it an important barrier. However, 35.13 percent think it to be “unimportant” or “irrelevant”.


10) The cost of obtaining the contract or servicing the export contract by flying abroad is considered to be “important” or “very important” by 30.56 percent. Respondents that felt it is “unimportant” or “irrelevant” amount to 41.66 percent. However, when respondents were split into two groups (small and medium firms) it was found that medium firms consider it much less of a problem (47.37 percent) than small firms (38.89 percent).

b) Ranking barriers hampering the export efforts of the organisation

The previous part of this chapter (5.1 of the questionnaire) requested respondents to rate the given export barriers from “very important” to “irrelevant”. In this section, respondents were requested to rank the top five of the same barriers. The results of the finding are indicated in Table 5.17 that follows.

Table 5.17 Ranking barriers that hamper the export effort

<table>
<thead>
<tr>
<th>Please rate the following: Barriers hampering the export efforts of your organisation</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>1. The lack of exposure to other cultures makes identification of markets difficult</td>
<td>10.34</td>
<td>6.90</td>
<td>20.69</td>
<td>27.59</td>
<td>34.48</td>
</tr>
<tr>
<td>2. Lack of management time</td>
<td>11.11</td>
<td>22.22</td>
<td>18.52</td>
<td>18.52</td>
<td>29.63</td>
</tr>
<tr>
<td>3. The inability to find good agents or distributors and keeping them motivated</td>
<td>9.09</td>
<td>21.21</td>
<td>21.21</td>
<td>30.30</td>
<td>18.18</td>
</tr>
<tr>
<td>5. Extensive modification needed to product or packaging</td>
<td>13.79</td>
<td>13.79</td>
<td>17.24</td>
<td>24.14</td>
<td>31.03</td>
</tr>
<tr>
<td>7. Changing customs requirements</td>
<td>10.00</td>
<td>36.67</td>
<td>6.67</td>
<td>20.00</td>
<td>26.67</td>
</tr>
<tr>
<td>8. The ability to control the foreign operation, channel policy and physical distribution</td>
<td>6.25</td>
<td>21.88</td>
<td>31.25</td>
<td>18.75</td>
<td>21.88</td>
</tr>
<tr>
<td>9. Language barriers</td>
<td>11.11</td>
<td>14.81</td>
<td>25.93</td>
<td>22.22</td>
<td>25.93</td>
</tr>
<tr>
<td>10. Cost of obtaining contract and/or servicing contract by flying overseas</td>
<td>3.70</td>
<td>22.22</td>
<td>37.04</td>
<td>18.52</td>
<td>18.52</td>
</tr>
</tbody>
</table>

Source: Results obtained from analysis of the ranking of export barriers.
From Table 5.17 it can be seen that all except changing customs requirements (equal on either side of the scale with 46.67 percent) are considered “less” or “least influential”. It was then decided to once again divide the respondents into two groups (small and medium sized firms). No difference in outcome could, however, be detected. It was then decided to rank the barriers to exporting according to the highest combined score obtained for those respondents that do see it as “more” and “most influential”.

The order of importance is as follows:

1) *Changing customs requirements.* As previously stated, it received a combined score of 46.67 percent as “more” and “most influential”.

2) *Voluminous paperwork and management of the export operation.* Those that indicated it to be “more” or “most influential” amounted to 35.29 percent, and those that consider it as “less” or “least influential”, 50 percent.

3) *Lack of management time.* 33.33 percent indicated it to be “important” to “very important” and 48.15 percent did not.

4) *Finding good agents and distributors and keeping them motivated.* Respondents indicated that 30.3 percent consider it to be “more” or “most influential”, while 48.48 percent do not.

5) *The ability to control the foreign operation, channel policy and physical distribution.* Respondents indicated it to be “more” or “most influential” by 28.13 percent, and “less” or “least influential” by 40.63 percent.
c) **Measures to overcome export barriers**

This question required respondents to choose the five factors that will assist most to overcome export barriers. Respondents were required to choose any figure between one and five, with one being the “most important” and five the “least important”. Three is considered to be “neutral”. Nine possibilities were listed. The results of the finding are presented in Table 5.18.

**Table 5.18 Measures to overcome export barriers**

<table>
<thead>
<tr>
<th>Overcoming export barriers – Please choose the five Most important factors that will assist most in overcoming barriers in exporting</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>1. The presence of related and supporting industries</td>
<td>25.82</td>
<td>19.35</td>
<td>16.13</td>
<td>19.35</td>
<td>19.35</td>
</tr>
<tr>
<td>3. Government incentives</td>
<td>42.85</td>
<td>17.14</td>
<td>22.86</td>
<td>2.86</td>
<td>14.29</td>
</tr>
<tr>
<td>4. Real exchange rate</td>
<td>45.45</td>
<td>24.24</td>
<td>18.18</td>
<td>6.06</td>
<td>6.06</td>
</tr>
<tr>
<td>5. Demand conditions in the foreign market</td>
<td>48.39</td>
<td>29.03</td>
<td>3.22</td>
<td>9.68</td>
<td>9.68</td>
</tr>
<tr>
<td>6. Sufficient market research pertaining to market conditions and opportunities by the DTI and ECA’s</td>
<td>14.29</td>
<td>21.43</td>
<td>25.00</td>
<td>28.57</td>
<td>10.71</td>
</tr>
<tr>
<td>7. Improved local port/airfreight services</td>
<td>41.18</td>
<td>29.41</td>
<td>17.65</td>
<td>5.88</td>
<td>5.88</td>
</tr>
<tr>
<td>8. Improving your own product quality</td>
<td>34.62</td>
<td>19.23</td>
<td>26.92</td>
<td>7.69</td>
<td>11.54</td>
</tr>
<tr>
<td>9. Being paid promptly when goods are received abroad [ ]</td>
<td>48.39</td>
<td>25.80</td>
<td>9.68</td>
<td>16.13</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Source: Results obtained from analysis of remedies for export barriers.

**Figure 5.16 Measures to overcome export barriers**

Source: Graphical representation of Table 5.18.

Owing to its importance, a decision was taken to rank all nine listed measures in Table 5.18 to overcome export barriers.
They are listed in descending order:

1) *Demand conditions in the foreign country*. Respondents rate it to be the number one priority, with 77.42 percent.

2) *Being paid promptly when goods are received abroad* is in second place, with 74.19 percent of respondents indicating it as “important” or “most important”.

3) *Improved local port/airfreight services* received 70.59 percent from respondents’ vote as being either “important” or “most important”.

4) *Real exchange rate* is fourth, and is rated by 69.69 percent as “important” or “very important”.

5) *Government incentives* are rated fifth with 59.99 percent of respondents considering it either “important” or “very important”.

6) Respondents felt that *improving one's own product quality* is also important, with 53.85 percent as “important” or “very important”.

7) *Availability of capital* receives 51.62 percent as being either “important” or “very important”.

8) *The presence of related or supporting industries* is considered to rank eighth, and receives 45.17 percent as either “important” or “very important”.

9) Ranked last is *sufficient market research by the Department of Trade and Industry (DTI) or Export Credit Agencies (ECAs) pertaining to market conditions and opportunities*. It receives 35.72 percent of respondents indicating it to be “important” or “very important”. However, 39.28 percent indicate it to be “unimportant” or “irrelevant”.

d) Conclusion

It is fair to assume from Table 5.16, that changing customs requirements, the ability to control the foreign operation, language barriers, and the cost of flying abroad to obtain or service contracts, are the most important export barriers.

Doole and Lowe (2001:183) are of the opinion that experienced exporters tend not to highlight issues such as the bureaucracy associated with international markets and trade barriers, which suggests that they have overcome the problems through
managerial proactiveness so that the problems can be dealt with. In analysing
Table 5.16, the conclusion can also be made that none of the listed barriers are
significant enough to deter the determined exporter.

What is also significant is that market forces (Table 5.18) are considered more
important than trade barriers - government incentives are rated fifth. Also
significant is the fact that the availability of capital is rated seventh out of the
possible nine, which is contrary to what the literature suggests.

5.2.4 STRATEGIC DECISIONS AND THE MINIMISING OF RISK IN THE EXPORT
PROCESS

The following discussion has a bearing on Part 4 (and Section 6) of the questionnaire,
and is concerned with strategic decisions and the minimising of risk.

a) Analysis of strategic measures and the minimising of risk

Respondents were requested to indicate the different degree of agreement or
disagreement by ticking the appropriate box. Respondents had five options to
choose from, ranging from “strongly agree” to “strongly disagree”. The option
“uncertain” is taken as neutral. The results of the finding are set out in Table 5.19
that follows.
Table 5.19 Making strategic decisions and minimising risk

<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Uncertain</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>1. Making use of an export management company helps to identify opportunities and navigate through paperwork</td>
<td>10.00</td>
<td>30.00</td>
<td>27.50</td>
<td>30.00</td>
<td>2.50</td>
</tr>
<tr>
<td>2. Focusing on one market at a time will improve your chances of success in the market</td>
<td>10.00</td>
<td>32.50</td>
<td>17.50</td>
<td>35.00</td>
<td>5.00</td>
</tr>
<tr>
<td>3. A low cost strategy is the surest way of achieving success in the foreign market</td>
<td>7.32</td>
<td>34.15</td>
<td>14.63</td>
<td>39.02</td>
<td>4.88</td>
</tr>
<tr>
<td>4. “First mover tactics” are important to your organisation to gain a competitive advantage</td>
<td>14.29</td>
<td>40.48</td>
<td>14.29</td>
<td>21.43</td>
<td>9.52</td>
</tr>
<tr>
<td>5. Market research by the organisation is a primary factor in the export decision</td>
<td>16.67</td>
<td>47.62</td>
<td>14.29</td>
<td>7.13</td>
<td>14.29</td>
</tr>
<tr>
<td>6. Your organisation do not consider innovation as being part of your competitive advantage</td>
<td>4.88</td>
<td>12.20</td>
<td>4.88</td>
<td>58.54</td>
<td>19.50</td>
</tr>
<tr>
<td>7. The organisation view the export programme as central to its long-term success and survival</td>
<td>61.90</td>
<td>21.43</td>
<td>9.53</td>
<td>7.14</td>
<td>0.00</td>
</tr>
<tr>
<td>8. Your organisation do not foresee establishing entry modes like turnkey operations, franchising, licensing, joint ventures or a wholly owned subsidiary in the near future</td>
<td>12.50</td>
<td>22.50</td>
<td>30.00</td>
<td>20.00</td>
<td>15.00</td>
</tr>
<tr>
<td>9. The exporter needs to recognise the time and managerial commitment involved in building export sales and should hire additional personnel to oversee this activity</td>
<td>14.63</td>
<td>36.59</td>
<td>19.51</td>
<td>26.83</td>
<td>2.44</td>
</tr>
</tbody>
</table>

Source: Analysis of strategic decisions and minimising of risk.
The results indicated in Table 5.19 can be interpreted as follows:

1) 40 percent of respondents “agree” and “strongly agree” with this statement. However, 32.5 percent of the respondents have the opposing view.

2) Respondents are divided in their opinions, because 42.5 percent “agree” or “strongly agree”, while 40 percent “disagree” or “strongly disagree”.

3) 41.47 percent of the respondents “agree” or “strongly agree”, while 43.9 percent of the respondents “disagree” or “strongly disagree”.

4) Respondents indicate that they “agree” or “strongly agree” by 54.77 percent. Only 30.95 percent “disagree” or “strongly disagree”.

5) Market research seems important, since 64.29 percent of respondents indicated being in “agreement” or “strongly agreed”. 21.42 “disagree” or “strongly disagree”.

6) Respondents “agree” or “strongly agree” by 17.08 percent that they consider innovation as part of their competitive advantage. 78.04 percent did not agree with this statement.

7) Respondents are in “agreement” or “strong agreement” by 83.33 percent that their export programmes is central to their long-term success or survival.

8) Respondents are equally (with 35 percent) divided in their opinion about considering alternative entry modes.
9) Time and commitment towards the export process is “agreed” or “strongly agreed” to, by 51.22 percent of the respondents. However, 29.27 percent of them “disagree” or “strongly disagree” with this statement.
b) **Recommendation**

Doole and Lowe (2001:189) suggest that the principal approach to strategy development for an SME is to follow three stages to internationalisation:

- Identification of the various segments that exist within the sector. Identifying cross-border segments with clearly identifiable requirements that it is able to serve.

- The firm must target the segment that appears to be most attractive in terms of its size, growth potential, the ease with which it can be reached, and its likely purchasing power.

- To defend or develop its business, the firm needs to position its products or services in a way that will distinguish them from local and international competitors, and to build up barriers.

c) **Conclusion**

The principal strategic action indicated in this part of the study is the decision to export one’s products.

Doole and Lowe (2001:28) say that international markets are dynamic entities, which require constant monitoring and evaluation. Innovation is an important competitive variable, not only in terms of the product or service, but also throughout the internationalisation process.

The five highest rated measures to minimise risk in the export process were rated as viewing the export operation as central to the firm’s survival, being innovative, conducting proper market research, to quickly exploit opportunities (first mover tactics), and to recognise the time and commitment needed in the export process.

The last sub-problem – *What do knowledgeable people feel are barriers to entering foreign markets and how can small and medium firms overcome these barriers?* – has been successfully resolved.
5.3 CONCLUSION

This chapter started off with the analysis of Part 2 (and Section 2) of the questionnaire, which is concerned with the reasons firms export their products. It was discovered that respondents mainly export to Germany and other European countries, rather than the United States. The reasons firms prefer to export to the European Union, in spite of opportunities offered by the African Growth and Opportunity Act (AGOA), presents an opportunity for further study.

It was further discovered that location of the customer, location of the export agent or marketing house, and an effective distribution channel, were rated the most important reasons to start exporting. Tariff barriers and complex custom procedures play a more significant role for small exporters than medium exporters, who view these factors as secondary to the export process. This suggests that small firms should devise strategies to overcome these obstacles.

Part 2 (and Section 3) of the questionnaire is concerned with the internal and external factors that affect the decision to enter foreign markets. It was found that external stimuli received higher responses than internal stimuli throughout the analysis of this part of the study. This suggests that firms are reactive rather than proactive in their export efforts.

However, firm strategy (internal stimuli) and taking advantage of the weak Rand (external stimuli); maintaining a foreign market position (internal stimuli) and general market forces (external stimuli); and taking advantage of economies of scale (internal stimuli) and favourable trade relations (external stimuli), seem to have some correlation with each other. Whether this correlation is more than coincidental, and the extent of the correlation, also offers opportunity for further study. This part of the study also uncovered that exporting is regarded as the most important growth factor for
respondents, which suggests that markets abroad are considered more lucrative than the domestic market.

**Part 3** of the questionnaire is concerned with what respondents perceive as barriers to their export operation. After analysis, it was discovered that changing customs procedures, the ability to control the foreign operation, language barriers, and the cost of flying abroad to obtain or to service contracts, are the most important export barriers. However, none of the listed barriers were significant enough to deter respondents from exporting, or to warrant a strong response. Significantly however, market forces are considered more important than trade barriers. Also, the availability of capital is not rated nearly as important as the literature suggests.

The analysis of **Part 4** of the questionnaire concludes the study, and is concerned with making strategic decisions and the minimising of risk. Respondents consider the export process in itself as being their most strategic decision. After analysis, it was discovered that the five most significant measures a firm can take to minimise risk are: viewing the export operation as central to the firm’s survival, to be innovative; conduct proper market research; to quickly exploit opportunities; and to recognise the time and commitment needed for the export process.

### 5.4 SUMMARY

In Chapter One it was discovered that exporting is good for the economic health of a country. It was also discovered that the Eastern Cape is lacking far behind other prominent provinces in South Africa that conduct exporting. This led to the main problem of the study: What factors inhibit Small and Medium Enterprises from exporting their products? To satisfy the main problem, four sub-problems needed to be satisfied.

It is important to note that different modes of entering other countries exist (Chapter Two). For the exporter, too, different modes for exporting exist. As demonstrated, the
mode of exporting will have a direct influence on the amount of risk to which the firm will be exposed in the export effort.

Chapter Three describes the instruments of trade policy, as well as the major trade agreements pertaining to the South African trade environment. Common pitfalls and difficulties uncovered in literature were emphasised, to further reduce the risk associated with exporting. A framework was also provided for firms that plan to embark on an export programme.

The planning of the empirical study was described in Chapter Four, and the independent variables, namely the demographics of the respondents, were also discussed.

Chapter Five set out to satisfy the last sub-problem - to determine what knowledgeable people feel are barriers to exporting. The findings and conclusions can be summarised in a statement made by Jain (1989:228): “Beyond an awareness of the unique forces at work in each overseas market, successful exporters will display the commitment and flexibility to unearth, understand, and respond to unique traits of each market. And they will adopt a bold approach to export strategy.”

The empirical study contradicts perceived barriers to exporting that are traditionally to be found in exporting textbooks. Respondents in this study are clearly more concerned with economic forces and markets for their products, than with export barriers. It is therefore assumed that the following two reasons exist why fewer firms in the Eastern Cape export their products than in some other provinces: One, they perceive the export process as being too risky, and two, economic conditions in the Eastern Cape stifle exporting, since the Eastern Cape is one of South Africa’s poorest provinces.


ANNEXURE 4.1

QUESTIONNAIRE ON THE ANALYSIS OF FACTORS THAT INHIBIT SMALL AND MEDIUM ENTERPRISES FROM EXPORTING THEIR PRODUCTS TO SOUTH AFRICA’S MOST IMPORTANT TRADING PARTNERS
PART 1

Section 1: DEMOGRAPHICS

Please cross (x) in the appropriate block
<table>
<thead>
<tr>
<th>1.1</th>
<th>General manager</th>
<th>Director</th>
<th>Manager</th>
<th>Owner</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2 How many years work experience do you have?</td>
<td>0 to 5</td>
<td>6 to 10</td>
<td>11 to 15</td>
<td>16 &amp; more</td>
<td></td>
</tr>
<tr>
<td>------------------------------------------------</td>
<td>-------</td>
<td>--------</td>
<td>----------</td>
<td>-----------</td>
<td></td>
</tr>
<tr>
<td>1.3 How many years work experience do you have dealing directly with exports?</td>
<td>0 to 5</td>
<td>6 to 10</td>
<td>11 to 15</td>
<td>16 &amp; more</td>
<td></td>
</tr>
<tr>
<td>1.4 If not the export department, please state in which department you are employed.</td>
<td>Human Resources</td>
<td>Supply chain</td>
<td>R&amp;D</td>
<td>Marketing</td>
<td>Sales</td>
</tr>
<tr>
<td>If other, please specify:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.5 How many employees in your organisation?</td>
<td>0-50</td>
<td>51-100</td>
<td>101-200</td>
<td>201-300</td>
<td>301-400</td>
</tr>
<tr>
<td>1.6 Nature of the business:</td>
<td>Complete product manufacturing</td>
<td>Component manufacturing</td>
<td>Consumer goods (e.g. fish)</td>
<td>Natural products (e.g. minerals)</td>
<td>Intellectual property (e.g. inventions, software, etc.)</td>
</tr>
<tr>
<td>If other, please state position:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.7 Ownership of the organisation is:</td>
<td>Wholly owned subsidiary</td>
<td>Private company</td>
<td>Partnership</td>
<td>Close corporation</td>
<td>Trust</td>
</tr>
</tbody>
</table>
1.8 Which sector is your company in?

<table>
<thead>
<tr>
<th>Automotive</th>
<th>Food &amp; beverages</th>
<th>Electronic and electrical</th>
<th>Engineering &amp; machinery</th>
<th>Information technology</th>
<th>Other</th>
</tr>
</thead>
</table>

If other, please state position:

PART 2

Section 2: ENTRY DECISIONS

Please cross (x) the appropriate block.

<table>
<thead>
<tr>
<th>2.1 Does your organisation export to?</th>
<th>European Union</th>
<th>United States</th>
<th>Both</th>
</tr>
</thead>
</table>

| 2.2 What specific states/countries in this trading block(s) is your firm exporting to? | Please specify |

| 2.3 Which of the following modes of transport are used in the export process? | Air | Sea |

| 2.4 Is it the opinion of the | Yes | No |

If answer to the first part of Section 2 is either the United States, European Union or Both then please proceed to 2.6.

<table>
<thead>
<tr>
<th>2.5 How important for your organisation is it to be involved in exporting to the United States and the European Union?</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
</table>

**2.6 Why is the organisation exporting to that specific state/country?**

<table>
<thead>
<tr>
<th>2.6.1 Effective distribution channel</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.6.2 Location of export agent or marketing house</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>2.6.3 Favourable tariffs</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>2.6.4 Simpler customs procedures</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>2.6.5 Proximity of port or airport to the target market</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>2.6.6 Proximity of the customer</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>
### Section 3: FACTORS PROMOTING COMPETITIVE ADVANTAGE

Please choose the five most influential internal factors that effects the decision to enter foreign markets and rank them on a scale of one (1) to five (5) with one (1) being most important and five (5) the least important.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>Sell off excessive production</td>
</tr>
<tr>
<td>3.2</td>
<td>Domestic market saturation (Develop and grow new markets)</td>
</tr>
<tr>
<td>3.3</td>
<td>Maintain foreign market position</td>
</tr>
<tr>
<td>3.4</td>
<td>Take advantage of economics of scale</td>
</tr>
<tr>
<td>3.5</td>
<td>Firm strategy</td>
</tr>
</tbody>
</table>

3.6 Please choose the five most important factors to the growth success of your organisation and rank them on a scale from one (1) to five (5) with one (1) being the most important and five (5) the least important.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>3.6.1</td>
<td>Entering US or EU markets?</td>
</tr>
<tr>
<td>3.6.2</td>
<td>Deciding what market to enter?</td>
</tr>
<tr>
<td>3.6.3</td>
<td>Deciding on the marketing program?</td>
</tr>
<tr>
<td>3.6.4</td>
<td>Deciding how to enter (agent, export house, etc)?</td>
</tr>
<tr>
<td>3.6.5</td>
<td>Culture of the foreign country?</td>
</tr>
</tbody>
</table>
3.6.6 Overseas contacts?

3.7 Rank the **external factors** that influence your organisation’s decision in entering foreign states/countries with one (1) being the most regular and five (5) the least regular.

<table>
<thead>
<tr>
<th>3.7.1</th>
<th>General market forces (e.g. economic forces, competitors, etc.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.7.2</td>
<td>Uncertainty in new markets (e.g. is there sufficient demand, unknown customer preferences, etc.?)</td>
</tr>
<tr>
<td>3.7.3</td>
<td>Uncertain distribution channels in new markets</td>
</tr>
<tr>
<td>3.7.4</td>
<td>Favourable trade relations (e.g. tariffs, levies, etc.)</td>
</tr>
<tr>
<td>3.7.5</td>
<td>Take advantage of the weak Rand in relation to hard currencies (Dollar, Euro or Pound)</td>
</tr>
</tbody>
</table>
Section 4: RELATIONSHIPS

4.1 Rank the most important contacts with the organization’s top suppliers/customers abroad with one (1) being the most regular and five (5) the least regular

- 4.1.1 Face-to-face meetings
- 4.1.2 Telephone discussions
- 4.1.3 E-mail/correspondence
- 4.1.4 Telefax correspondence
- 4.1.5 Other, please specify

4.2 Rank the most common manner of communications between the organization and suppliers/customers abroad with one (1) being the most regular and five (5) the least regular

- 4.2.1 Face-to-face meetings
- 4.2.2 Telephone discussions
- 4.2.3 E-mail correspondence

3.7.6 To make use of opportunities created by the African Growth and Opportunities Act (AGOA) or the South Africa/European Trade agreement (TDCA)

3.7.7 Trade barriers imposed by trade blocks (quotas, accusations of dumping, administrative barriers, ext.)

3.7.8 Other, if other please specify:
4.2.4 Telefax correspondence

4.2.5 Other, please specify

<table>
<thead>
<tr>
<th>PART 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section 5: BARRIERS IN EXPORTING</td>
</tr>
</tbody>
</table>

5.1 Please rank the following: Barriers hampering the export efforts of your organisation

Please cross (x) in the appropriate box


<table>
<thead>
<tr>
<th>5.1.1 The lack of exposure to other cultures makes the identification of markets and customers difficult</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1.2 The lack of management time</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>5.1.3 Inability to find good agents and distributors and keeping them motivated</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>5.1.4 Voluminous paperwork and management of the export operation</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>5.1.5 Extensive modification needed to product or packaging for different safety and quality targets</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>5.1.6</td>
<td>Difficulty in obtaining financing</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>5.1.7</td>
<td>Changing custom’s requirements</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>5.1.8</td>
<td>The ability to control the foreign operation, channel policy and physical distribution</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>5.1.9</td>
<td>Language barriers</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>5.1.10</td>
<td>Cost of obtaining contract and/or servicing contract by flying overseas</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>5.1.11</td>
<td>Other, please specify:</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

5.2 Please rank the barriers hampering the export effort of your organisation, with one (1) being the most influential and five (5) the least influential

| 5.2.1 | The lack of exposure to other cultures makes the identification of markets and customers difficult |
| 5.2.2 | The lack of management time |
### 5.2.3 Finding good agents and distributors and keeping them motivated

### 5.2.4 Voluminous paperwork and management of the export operation

### 5.2.5 Extensive modification needed to product or packaging for different safety and quality targets

### 5.2.6 Difficulty in obtaining financing

### 5.2.7 Changing custom’s requirements

### 5.2.8 The ability to control the foreign operation, channel policy and physical distribution

### 5.2.9 Language barriers

### 5.2.10 Cost of obtaining contract and/or servicing contract by flying overseas

### 5.2.11 Other, please specify:

.......................

---

### 5.3 Overcoming export barriers - Please choose the five most important factors that will assist most in overcoming export barriers, with one (1) being the most important and five (5) the least important
<table>
<thead>
<tr>
<th>5.3.1 The presence of related and supporting industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.3.2 Availability of capital</td>
</tr>
</tbody>
</table>
### 5.3.3 Government incentives (e.g. tax incentives, rebates on levies and charges, etc)

### 5.3.4 Real exchange rate

### 5.3.5 Demand conditions in the foreign market

### 5.3.6 Sufficient market research and communication by the Department of Trade and Industry (DTI), Export Credit Agencies (ECA's), etc. pertaining to market conditions and opportunities

### 5.3.7 Improved local port/airfreight services

### 5.3.8 Other, please specify:


### PART 4

**Section 6: STRATEGIC DECISIONS AND MINIMIZING RISK**

Set out below is a number of statements pertaining to the minimizing of risk and strategic decision in the export process. Please indicate the degree of agreement or disagreement with relation to each statement by crossing the appropriate box.

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Agree</th>
<th>Uncertain</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.1 Making use of a export management company (EMC) helps to identify opportunities and navigate through paper work</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
</table>

---
<p>| 6.2 | Focusing on a few markets at a time will improve your chances of success in the market |
| 6.3 | A low cost strategy is the surest way of achieving success in the foreign market | 1 | 2 | 3 | 4 | 5 |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>6.4</strong></td>
<td>“First mover tactics” are important to your organisation to gain a competitive advantage</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td><strong>6.5</strong></td>
<td>Market research by the organisation is a primary factor in the export decision</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td><strong>6.6</strong></td>
<td>The organisation you work for do not consider innovation (product, packaging, marketing, etc) as being part of your competitive advantage</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td><strong>6.7</strong></td>
<td>The organisation view the export program as central to its long-term success or survival</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td><strong>6.8</strong></td>
<td>Your organisation do not foresee establishing entry modes like turn key operations, franchising, licensing, joint ventures or a wholly own subsidiary in the</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>
The exporter needs to recognise the time and the managerial commitment involved in building export sales and should hire additional personnel to oversee this activity.

Thank you for your time taken to complete the questionnaire
29\textsuperscript{th} May 2003

Dear Sir/Madam

RESEARCH INTO PROBLEMS EXPERIENCED BY SMALL AND MEDIUM SIZED BUSINESSES EXPORTING THEIR PRODUCTS TO SOUTH AFRICA’S MOST IMPORTANT TRADING PARTNERS

I am currently conducting research in exporting within the Eastern Cape in pursuance of a master’s degree through the Port Elizabeth Technikon. The title of the research project is “An analysis of factors that inhibit small and medium enterprises from exporting their products to South Africa’s most important trading partners”.

As you are aware, a small percentage of small and medium sized businesses in South Africa do export their products to other parts of the world. This is in sharp contrast to states and countries within the United States and the European Union where the bulk of exporting comprises of small and medium sized businesses. In the Eastern Cape it is even more so since the exporting activities in the province lack far behind that of the Western Cape and Gauteng. The purpose of this study is to identify the reasons behind businesses not exporting, assess the methods used and resources available in the Eastern Cape Region. Once established, information can be fed back to the MBA Unit at the PE Technikon that will enable students to devise appropriate export strategies that should benefit the whole region in the long term.

The attached questionnaire is divided into six (6) sections that address issues relating to the factors that inhibit businesses exporting their products within the Eastern Cape. It should take no more than 20 minutes to complete and will be an extremely useful tool in formulating an appropriate strategy for any business in developing an export program.

On completion please return the questionnaire, before or on the 5\textsuperscript{th} June 2003, to the supplied E-mail address.

Thank you for your assistance.

FF Muller
Part time student
MBA Unit: Port Elizabeth Technikon