Determining the factors causing the underutilisation of export opportunities of South African firms

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ABSTRACT

South Africa is struggling with low economic growth, poverty, and high unemployment levels. From exports, a country earns foreign exchange which can be used to meet economic growth and other goals which can ultimately lead to economic development. South Africa is a small, open economy and therefore more dependent on international trade. The country relies on exports to support production and employment. Numerous plans have been put into place to increase South Africa's export levels. However, the country's export performance is not living up to expectations and policy goals. Past research has found that South Africa utilises a comparatively small percentage of its export potential. Similarly, a large percentage of South Africa's export potential has been identified in relatively new markets. This study aims to investigate the issue of underutilisation of export opportunities by South African firms.

Literature on South Africa's export firm-level behaviour is mainly based on cross-sectional survey data and focuses on the characteristics of export firms. Research on South African firms' international market selection (IMS) strategies is also limited. To attend to this knowledge gap, this study utilised primary level data to obtain a better understanding of export challenges and decisions of South African firms. A single, embedded case study approach was followed to identify participants for the study. A literature review, desktop analysis analysing secondary data from documents, and semi-structured interviews were used as data sources. The findings from the interviews with managers and other key personnel at South African export firms were compared with those from the literature and desktop analysis. Triangulation of the three data sources was therefore applied to increase the credibility and validity of the findings.

One of the main findings was that the participants apply a non-systematic IMS approach, relying on existing relationships and networks when selecting new export markets for their products. Considerable time and effort are put into maintaining these business relationships. Another strategy to deal with export barriers is to have a representative located in the import markets. Most of the exporters were aware of the potential export opportunities identified in this study. However, they were generally not interested in investigating the new markets due to supply-side obstacles, such as electricity issues, high cost of capital, low product quality, and price competitiveness. Other obstacles include connectivity issues such as high transport cost and logistical inefficiency, as well as varying standards and protocols expected in target markets, and the lack of government cooperation to meet these requirements.

To increase export levels, it is essential that South African exporters are supported to overcome the barriers they face in utilising export potential. This study is among the first to interview South African exporters to highlight their challenges and identify how they can be supported to increase exports and utilise the opportunities in the global market.

From the findings, several policy recommendations can be made to potentially help increase South Africa's export levels. These recommendations include establishing better cooperation, communication, and trust between exporters and the government to speed up the processes of obtaining the documentation needed for exporting and adhering to international standards and regulations. Other recommendations are: investing in road, rail and port infrastructure, as well as the automation of border procedures; providing improved trade finance and credit insurance conditions to qualifying exporters; creating incentive schemes for export firms to invest in solar systems; and supporting the establishment of new trade relationships and networks by means of trade missions, trade fairs, and matchmaking with other exporters.

Keywords: International trade, firm-level international market selection, firm-level barriers to trade, export barriers, South African export firms, utilisation of export opportunities.

LIST OF ABBREVIATIONS

BRICS	Brasil, Russia, India, China and South Africa
CIF	Cost, Insurance, and Freight
COVID-19	Coronavirus disease 2019
DSM	Decision Support Model
DTI	Department of Trade and Industry
DTIC	Department of Trade, Industry and Competition
EDD	Economic Development Department
ETI	Energy Transition Index
EU	European Union
EUCAS	European Union Cattle Accreditation Scheme
FDI	Foreign Direct Investment
FOB	Free on Board
GDP	Gross Domestic Product
GJMC	Greater Johannesburg Metropolitan Council
GMO	Genetically Modified Organism
HGP	Hormone Growth Promotants
HHI	Herfindahl-Hirschman-Index
HS	Harmonised System
ICA	Investment Climate Assessment
IMS	International Market Selection
ITC	International Trade Centre
LPI	Logistics Performance Index
LSS	Large-Scale Survey
MBV	Market-Based View

NAICS	Northern American Industry Classification System
NDP	National Development Plan
NES	National Enterprise Survey
NGP	New Growth Path
NPC	National Planning Commission
RBV	Resource-Based View
RCA	Revealed Comparative Advantage
REO	Realistic Export Opportunity
RMA	Revealed Import Advantage
RTA	Revealed Trade Advantage
SADC	Southern African Development Community
SARS	South African Revenue Services
SBP	Small Business Project
SCP	Structure-Conduct-Performance
SITC	Standard International Trade Classification
SMEs	Small and Medium-Sized Enterprises
SSA	Sub-Saharan Africa
TFP	Total Factor Productivity
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
US	United States
WACC	Weighted Average Cost of Capital
WEF	World Economic Forum
WTO	World Trade Organisation

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CHAPTER 1: INTRODUCTION

1.1 Background and motivation

Globalisation is a widely recognised phenomenon and is commonly seen as a lucrative opportunity for companies seeking to expand their business into new markets. Greater profits and larger market share, as well as increased employment opportunities and foreign exchange earnings which can result in economic development, are reasons why companies engage in exports (Lederman *et al.,* 2009; World Bank, 1992). To take full advantage of these opportunities, companies frequently extend their reach from domestic markets to pursue opportunities internationally. For some companies, exporting is essential for survival. Consequently, the significance of exports goes beyond merely being a way to expand business and increase profits. Thus, a rising number of companies now realise the importance of export activities for survival and growth (World Bank, 2019b). From exports, a country earns foreign exchange which can be used to meet economic growth and other goals which can ultimately lead to economic development.

The many benefits of exporting have resulted in numerous export promotion programmes provided by the government and private entities in South Africa (Volpe & Carballo, 2008). These programmes intend to stimulate export activities by encouraging companies to promote their products or services in international markets. However, many export opportunities for South African firms are still not being fully exploited (Cuyvers, Steenkamp, Viviers, *et al.,* 2012; Cuyvers, Viviers *et al.,* 2012; Cuyvers *et al.*, 2017; Ferreira & Steenkamp, 2020a, 2020b; Ferreira *et al.,* 2022; International Trade Centre (ITC), 2022; Mhonyera *et al.,* 2018) (see section 1.1.2). Better utilisation of these opportunities is essential, as it has the potential to yield profitable trade outcomes and foster economic growth.

1.1.1 Export growth and diversification in South Africa

The economic growth pattern of South Africa has been subject to fluctuations over the years. The decade prior to the first democratic election in 1994 was affected by political instability and sanctions on capital flows and trade, leading to weak economic growth. The country saw an improvement in its economic growth performance after 1994 due to more liberal trade policies that eliminated several barriers to trade (Du Plessis *et al.,* 2007).

Although the economy opened up after the 1994 election, South Africa still faces several economic challenges today (Tregenna *et al.,* 2021), namely low economic growth rates, high unemployment levels, frail interest from trade and investment partners, and high poverty levels among its population (Enaifoghe *et al.,* 2021). In addition, economic growth has stagnated in recent years due to the financial crisis in 2008/09, changing global alliances, and stringent market requirements – all of which have made exporting from developing countries more difficult (Janse Van Rensburg *et al.,* 2022; Purfield *et al.,* 2014).

Owing to the lifting of sanctions, South Africa experienced a 5 per cent increase in its long-run total production gains following a 10 per cent increase in the country's openness to trade from 1990 to 1998 (Jonsson & Subramanian, 2001). Furthermore, South Africa's annual real GDP growth increased to 2.9 per cent on average between 1995 and 2003, up from merely 1.2 per cent on average between 1980 and 1994 (Arora, 2005). The country's Total Factor Productivity (TFP),[1] indicating the efficient utilisation of inputs in production, increased from a yearly average of -0.4 per cent between 1980 and 1994 to 1.3 per cent in the period 1995 to 2003 (Arora, 2005). However, this increase in TPF have not been sustained, and a steady decline have been seen from a TFP of 1.15 in 2005 to 0.96 in 2019 (Federal Reserve Bank of St. Louis (FRED), 2024). Based on all the evidence of the positive effects of foreign trade, it is not surprising that increasing exports constitute one of the main pillars for improving economic growth in South Africa (National Planning Comission (NPC), 2011).

South Africa certainly has the potential for further economic growth due to the country's vast unexploited export opportunities (Stern & Ramkolowan, 2021). According to the NPC, South Africa might achieve a GDP growth of 5.4 per cent if it is able to increase its export trade volumes by 6 per cent annually (NPC, 2013). Such an increase in the country's GDP could lead to the creation of 11 million potential job opportunities by 2030 (NPC, 2013). Therefore, for South Africa to stimulate job creation and economic growth, it is important to focus on increasing the country's export activities.

However, South Africa's export performance has remained weak, with a share in the world's total exports of merely 0.5 per cent in 2023, compared to Brazil, China, India and the Russian Federation with world export shares of 1.4 per cent, 14.7 per cent, 1.8 per cent, and 2.3 per cent respectively (ITC, 2023b). This weak performance has persisted despite a significant depreciation in the country's

[1] Total factor productivity (TFP) is the portion of output not explained by the number of inputs used in production (Comin, 2010). Thus, the level of TFP depends on the intensity and the efficiency of the utilisation of the inputs in production (Comin, 2010).

currency in the last few years – a factor that typically enhances a country's attractiveness as a trade partner and boosts exports (Alexander & Reza, 2022). Furthermore, the COVID-19 pandemic had a crippling effect on South Africa's export performance (Matthee *et al*., 2022). The country is still recovering from the 10.3 per cent decline in exports experienced in 2020 due to the steep slowdown in trade globally (World Bank, 2021).

For South Africa to reach its economic growth objectives, the country must diversify its exports across various products, services, and destinations (see section 4.2 for South Africa`s main export products and markets). Export diversification can allow South Africa to achieve a wider range of production structure, for instance, the introduction of both new and higher-valued products into the country's production and export basket (Giri *et al.,* 2019). Export diversification enables a country to enhance its resilience amid uncertainties in the global market and reduce its vulnerability to price fluctuations and commodity shocks (Bajaj *et al.,* 2022; Reis & Farole, 2012). Also, trade in higher-skilled and higher-technology products may result in positive spillovers (Naudé *et al.,* 2010). A diversified export basket allows a country to reap the benefits that come with the exporting of higher-valued products (Giri *et al.,* 2019; Naudé *et al.,* 2010). Export diversification is, therefore, highly recommended for developing countries to upsurge their economic growth (Matthee, Idsardi *et al.,* 2016).

Evidently, for South Africa to reach its growth objectives, export promotion activities must focus on expanding trade in the higher-value sectors in which the country has been performing weakly so far (Matthee, Idsardi *et al*., 2016). Thus, export promotion should be directed at achieving the export potential that South Africa clearly has. South African exporting firms urgently need to optimise the country's production and exporting resources (Giri *et al*., 2019). To achieve this, exporters must have access to information regarding possible export opportunities. Thus, South Africa should prioritise export diversification and harness its export potential. One way to do this is to conduct more formal export potential assessments. The following section discusses the various methods available to identify a country's export potential.

1.1.2 Export potential assessments

International market selection is a critical process followed by companies and governments seeking to expand their exports into new markets or further utilise their export potential (Brewer, 2001) (see section 1.1.1). This study focused specifically on a company's approach to IMS. It is important that a company chooses those markets where its export activities will be the most profitable (Miečinskienė *et al.,* 2014). However, IMS is a complex process due to the large number of possible markets globally.

The export potential of international markets can be assessed from two approaches as indicated in international trade literature: export potential in the *intensive product margin* (relating to gravity models), and the *extensive product margin* (relating to product space analyses) (Decreux & Spies, 2016). Determining export potential in the *intensive product margin* is based on the concept that trade between countries is positively linked with product supply and demand levels, but negatively linked with impediments to trade like geographic distances or customs duties. Thus, these assessments naturally relate to the gravity model (Decreux & Spies, 2016).

The gravity model has been frequently applied in the literature to determine export potentials for specific sectors and countries. The model was initially used by Wang and Winters (1991), Baldwin (1994), and Gros and Gonciarz (1996), but their studies were criticised because large discrepancies between the actual and the predicted trade were attributed to misspecifications of the models, rather than to unexploited export opportunities (Egger, 2002). Since then, a limited number of authors have applied the gravity model to determine sectoral export potentials of specific countries, while others apply coefficients collected from country characteristics to infer the export potential of sectors (Shepotylo, 2009). However, Fontagné *et al*. (2002) and Helmers and Pasteels (2006) suggested that results will be inaccurate if disaggregated information regarding the key determinants of sector level trade are excluded. Product-level production and consumption are excluded from these models, which could result in biased coefficients (Decreux & Spies, 2016).

Hausmann and Klinger (2007) and Hidalgo *et al*. (2007) developed the concept of product space which can be applied to countries that want to develop and diversify into new export sectors in the *extensive product margin*. Products that the exporting country does not currently export at a competitive level, but which appear to be a viable opportunity based on the country's and similar countries' export baskets, can be considered having export potential in the extensive product margin (Decreux & Spies, 2016). According to this concept, it is easier for a country to start exporting a new product if the product is exported together with products which the country is already exporting (Decreux & Spies, 2016). It is assumed that these products would require similar capabilities to those already possessed by the country (Decreux & Spies, 2016).

The concept of product space has been applied by several studies as a guide for developing countries, helping to indicate export potential and determine which products they may be able to export (Fortunato *et al*., 2015). But these studies have solely focused on supply capacities and did not take into account whether the product in question has the potential to succeed in a prospective target market (Decreux & Spies, 2016).

Various methods can be used to identify export potential. The discussion will focus on two methods that are widely applied, namely the International Trade Centre's (ITC) export potential assessment, and the Decision Support Model (DSM). To assist developing countries in the process of identifying potential products for their export activities, the ITC has developed the export potential assessment. This methodology is designed to identify export opportunities for developing countries. The assessment entails a decomposition of a country's potential exports of a specific product to a given target market into three factors: supply, demand, and easiness to trade (Decreux & Spies, 2016).

Two approaches are available, depending on the needs of the country concerned. The first approach is the Export Potential Indicator (EPI), designed to support countries in bolstering their already-established sectors by increasing their exports to new and existing markets. The EPI identifies products that a country is already exporting competitively in the international market and that have the potential for succeeding in specific target markets (intensive product margin) (Decreux & Spies, 2016). The second approach is the Product Diversification Indicator (PDI), which is designed to serve countries seeking to diversify and develop new export sectors. Based on Hausmann and Hidalgo's concept of product space, the PDI identifies products that are not being exported competitively but show potential based on the current export basket of the country and the export basket of countries with similar features (extensive product margin) (Decreux & Spies, 2016).

Policy objectives are reflected in additional indicators that further refine the selection of potential export products. The results of the ITC's export potential assessment have proven to be stable over time and can therefore serve as a suitable base of information for a country's development programmes or medium-term export strategies (Decreux & Spies, 2016).

According to Decreux and Spies (2016), the DSM is the only approach apart from the ITC's export potential assessment that considers demand, supply, and market access in order to provide potential export opportunities at a detailed product level. The DSM was developed by Cuyvers *et al*. (1995) to assist the export promotion agencies of the Belgian government in the implementation of export promotion activities. It is an analytical tool that applies a sequential filtering process to scan all possible product–country combinations to find the most suitable export opportunities (Viviers *et al.,* 2017). Thus, the least attractive product–country combinations are filtered out and the most promising export opportunities remain. Strategic business decisions can then be made, and exporters stand a better chance of selecting export markets that yield the most profitable trade outcomes and, in turn, help them achieve their export potential. This study used the results of the DSM, as this model has been refined, adapted, and applied for South Africa since 2007.

Since its development, the DSM has been applied to identify sustainable export opportunities for Thailand (Cuyvers, 1997; 2004) and, in more recent studies, for the Czech Republic (Urban *et al.,* 2014), Greece (Kanellopoulos & Skintzi, 2014), the Netherlands (Viviers, Cuyvers, Naudé *et al.,* 2014), Thailand (Cuyvers *et al.*, 2017), Zimbabwe (Mzumara *et al*., 2014; 2015) and Rwanda (Cameron *et al.,* 2017; Ferreira & Steenkamp, 2020a; Ferreira *et al.,* 2022).

For South Africa, the DSM was first applied in 2007 (Viviers & Pearson, 2007) and 2009 (Steenkamp *et al.,* 2009; Viviers *et al.,* 2009). The South African DSM was further refined and adapted between 2010 and 2011 to entail the more detailed Harmonised System (HS) 6-digit product level and applied again in several local studies (Cameron *et al.,* 2017; Cuyvers, Steenkamp *et al.,* 2012a; Cuyvers, Steenkamp *et al.,* 2012b; Steenkamp, 2011; Steenkamp & Viviers, 2012; Viviers *et al*., 2010). The results of the DSM are used by South African export promotion organisations to guide exporters in the identification of sustainable export opportunities, as well as to assign scarce export promotion resources more efficiently (Viviers, Cuyvers, Steenkamp *et al.,* 2014).

Cuyvers, Steenkamp, Viviers *et al.* (2012) compared the potential and actual export values for the export opportunities identified by the DSM in Belgium, Thailand, and South Africa. This comparison revealed that, on average, South Africa utilises 18.59 per cent of its export potential compared to Belgium's 50.91 per cent and Thailand's 34.10 per cent. In a subsequent application of the DSM for South Africa, Viviers, Cuyvers, Steenkamp *et al.* (2014) found that 42.83 per cent of South Africa's potential export value is found in markets where the country has a relatively small market share,[2] indicating that most of the the country's export potential is located in relatively new markets. Cameron *et al.* (2017) analysed South Africa's export opportunities in the fruit and nut sector and found 47 per cent of the potential export opportunities to be in new markets (unutilised). Furthermore, Mhonyera *et al.* (2018) found that 42 per cent of South Africa's sustainable export potential in Sub-Saharan Africa (SSA) remains untapped.

Based on these findings, there clearly is a need to better understand what currently drives South African export firms' export decisions, behaviour, and performance. The discussion also reveals that formal export potential assessments are important tools to identify potential markets for exporting firms. For the purposes of this study, the DSM was deemed the most suitable method and was applied to identify potential export markets for South African firms. The following section discusses

[2] A country is said to have a relatively small market share in markets where it has between zero and up to <5 per cent of the average market share of the top six competitors in each market.

the available literature on South African firm-level behaviour and the characteristics of South African exporting firms.

1.1.3 South African firm-level studies

To increase the export levels of developing countries, it is necessary to better understand the behaviour of exporting firms. Studies done globally on exporting firm behaviour have found two characteristics that strongly correlate with export activity, namely the size of the firm, and productivity (see section 3.3) (Rankin, 2013; Bezuidenhout *et al.*, 2020). The size of a firm is generally measured according to the number of employees. A large number of employees allow the firm to engage in specialisation within the firm and to dedicate employees to export-specific tasks (Bigsten *et al.*, 2004; Söderbom & Teal, 2000, 2003). More employees are also needed to increase the level of production, which may result in economies of scale and reduce average unit costs. Given that the competition in the international market is higher than that of domestic markets, the level of productivity among exporting firms becomes crucial for survival. Furthermore, exporting firms must consider transportation costs and other trade barriers to effectively participate in the global market, introducing additional hurdles that need to be overcome (see section 3.4) (Edwards *et al.,* 2008).

The literature on South African firm-level research has primarily focused on sample studies investigating the behaviour of South African export firms, mainly in the manufacturing sector (see chapter 4) (Bezuidenhout *et al.*, 2020; Edwards *et al.*, 2008; Gumede, 2004; Gumede & Rasmussen, 2002; Matthee & Krugell, 2012; Matthee, Farole *et al.,* 2016; Matthee, Idsardi *et al.*, 2016; Naudé *et al*., 2005; Naughtin & Rankin, 2014; Rankin, 2001, 2013; Rankin & Schöer, 2008, 2013). In summary, these studies found that exporters have superior characteristics to non-exporters, and there is a small group of super-exporters.[3] Thus, according to the literature, a small number of exporting firms is responsible for the main share of the country's total export value (Rankin, 2013). Furthermore, the South African firms that engage in exporting are larger than non-exporting firms in terms of the number of employees and output (Bezuidenhout *et al.,* 2020; Matthee & Krugell, 2012; Naughtin & Rankin, 2014; Rankin, 2013). These exporting firms are more productive, more capital intensive, face higher cost of labour than non-exporters, and the value-added per employee is higher (Rankin, 2001).

[3] Super-exporters are defined as the top 1 per cent of exporters. These firms account for 50% or more of exports by volume in their sector and have a minimum of 500 employees (Chipanda, 2014).

The characteristics of exporting firms also vary depending on which market they export to (Rankin, 2001, 2013; Rankin & Schöer, 2008, 2013). Although several studies exist on the characteristics of exporting firms, little is known about the way in which they target markets and select export opportunities. Ashley *et al.* (2022) are currently the only recent study on South Africa's firm-level IMS strategies. Their findings show that South African firms tend to follow a systematic, four-step approach when selecting new markets for their products. However, the findings of previous studies on the IMS strategies of other developing and emerging markets show that the countries follow a non-systematic and unstructured IMS process when selecting new export markets (Clark *et al*., 2018; Ellis, 2000; Johanson & Vahlne, 2009; Kobrin, 1976; Musso & Francioni, 2014; Papadopoulos & Martín, 2011; Yip *et al.,* 2000) (see section 3.5).

These contradicting findings indicate the need for further analysis of South African firm-level IMS strategies. As past research on export firm behaviour has mainly focused on cross-section survey studies to identify export firm characteristics, this study contributes to the literature through its use of interviews to collect informationon the IMS processes of South African firms and the barriers they face when exporting their products. Furthermore, the export assessment models applied in the study show that there is export potential for South African products in several markets. However, the trade statistics indicate that South African firms are not utilising these opportunities successfully (see section 1.1.2). Currently, there is no study on South African export firms that investigates the reasons behind the underutilisation of specific export opportunities. Thus, the study at hand sought to fill this knowledge gap by investigating how South African firms select international markets and why they are not exploiting export opportunities that clearly show potential.

1.2 Problem statement

South Africa is facing low economic growth rates, high unemployment levels, low interest from trade and investment partners, and high poverty levels among its population (see section 1.1.1). Past literature found substantial underutilisation of South Africa's export potential, also when compared to other countries (see section 1.1.2). Stringent market requirements, changing global alliances, and financial/health crises have resulted in a stagnation of the country's economic growth levels as exporting has become more challenging. Nevertheless, South Africa has the potential for further economic growth due to the country's vast unexploited export possibilities. For South Africa to continue to stimulate job creation and economic growth, it is critical to focus on increasing the country's export activities.

The available literature on export firm behaviour, specifically South African firms, emphasises firm characteristics and the dynamics of export firms. Primary information is limited on the challenges that South African export firms are facing and their IMS practices. In the light of South Africa's export underperformance, this study fills an important gap in the literature by investigating possible reasons for the underutilisation of export opportunities for South African firms.

1.3 Research questions

The research questions were divided into a general question and specific questions. The following research questions were formulated based on the above description of the research problem:

1.3.1 General research question

Why are South African firms not exporting to many of the markets (product–country combinations) that clearly show export potential based on international trade data?[4]

1.3.2 Specific research questions

- How do South African firms approach international market selection (IMS) and what drives their export market choices?
- What firm-level export barriers do South African firms face when exporting their products to markets identified in this study?
- What measures can be taken to aid South African export firms to overcome and deal with the export barriers they are facing?

To answer the above research questions, a number of research objectives were formulated as set out in section 1.4.

[4] "Export potential" refers to large and growing import demand matched with competitive export supply.

1.4 Objectives

The research objectives were divided into a general objective and specific objectives.

1.4.1 General objective

The main objective of this study was to nvestigate possible reasons for the fact that South African exporting firms are not utilising a comparably large percentage of their export opportunities (see section 1.1.2).

1.4.2 Specific objectives

- Analyse the IMS strategies followed by South African firms when selecting new export markets for their products.
- Investigate the barriers to export that South African firms face, specifically for the unutilised product-country combinations included in the case study.
- Provide policy recommendations on how to overcome the barriers faced by South African exporters in a practical and efficient manner, directly addressing the immediate needs expressed by exporters in dealing with their most pressing barriers.

1.5 Research design and methodology

Based on the objectives identified in sections 1.4.1 and 1.4.2 and the research paradigm identified in section 1.5, the study applied a qualitative methodology to collect primary data. In line with Yin (2014), the study followed a single, embedded case study approach to achieve the research objectives (see section 2.3.1). The case study consisted of three data sources: a literature review, desktop analysis, and interviews with key personnel at South African export firms. The literature review was conducted to include theoretical propositions and to understand the literature relevant to the case study (Yin, 2014). The desktop analysis was performed to provide additional insight on the topic and to prepare for the interviews and potential follow-up questions (see section 2.4, phase 3.2). Semi-structured interviews are commonly used with qualitative methods and were conducted to collect primary data for this study (Creswell & Creswell, 2022; Yin, 2014) (see section 2.4, phase 4).

The research process consisted of five phases. The main criteria considered in each phase are described in short in the following sections. A detailed description of the research design and methodology of the study is provided in chapter 2.

Phase 1: Identify South African products with consistent and untapped export opportunities

In phase 1, South African products with consistent, untapped export opportunities in two or more destination markets were identified using the selection criteria of the DSM (see section 2.4, phase 1). The size and growth of import demand were evaluated in filter 2 of the original DSM (see section 2.4, phase 1.1). Filter 3.1 of the DSM was applied to evaluate the concentration of competitors in potential destination markets (see section 2.4, phase 1.2). To ensure export supply capacity, South Africa's Revealed Comparative Advantage (RCA) and Revealed Trade Advantage (RTA) were determined for each product and used as a proxy for international product-level export competitiveness (Steenkamp *et al.,* 2015; Vollrath, 1991) (see section 2.4, phase 1.3). Sizeable and/or growing, unconcentrated import demand in potential markets was matched with export supply capacity and, thereafter, actual export was evaluated (see section 2.4, phase 1.4). If actual exports to these opportunities were zero, it was considered an untapped market. Products that consistently (for at least three out of the five consecutive runs of this process) revealed untapped export potential in two or more markets were selected. In total, 19 products and 42 product–country combinations were selected for the case study (see section 2.4, phase 1.4).

Phase 2: Identify and contact South African exporters

South African export firms were identified by using the Kompass application on the ITC Trademap website (ITC, 2023a), as well as through references and industry contacts of the North-West University. The exporters were contacted by email and telephone (see section 2.4, phase 2).

Phase 3: Prepare for interviews

To prepare for the interviews, a literature review and desktop analysis were conducted. The data collection for the study involved a combination of data sources, including a literature review, desktop analysis, and semi-structured interviews. Applying several data sources increases the validity of a research study (Creswell & Creswell, 2022).

The literature review presented the current literature on IMS strategies followed by exporting firms and the export barriers they face when exporting to foreign markets. The findings of the literature review were compared with the findings of the desktop analysis and interviews (see section 2.4, phase 3.1).

The desktop analysis of the market access to the identified potential markets entailed an analysis of non-tariff measures such as the technical barriers to trade, as well as tariff levels, trade costs, transportation time, and logistics efficiency. The desktop analysis was conducted to prepare for the interviews, to inform follow-up questions, and to confirm or supplement the interview responses (see section 2.4, phase 3.2).

Phase 4: Conduct interviews

The primary data for the study were collected by conducting semi-structured interviews with the participants, discussing the firms' IMS strategies and export barriers. The interviews were held online and lasted between 45 and 60 minutes. Pre-constructed questions were posed regarding the firms' IMS strategies, export barriers, and the reasons why the firms are currently not exporting to the markets identified as export opportunities. Qualitative open-ended questions were used to capture the participants' experiences, opinions, and attitudes on the topic. In this way, valuable, first-hand information could be gathered from managers and directors at South African export firms.

Phase 5: Analyse the data

A thematic analysis was performed after the interviews were conducted and transcribed. The data were coded and grouped into different categories and themes, which represent the main findings of the study. The interview and desktop findings were compared with the findings from the literature review. The thematic analysis followed Creswell's (2014) six-step linear, hierarchical approach (see section 2.4, phase 5).

The validity and rigour of the study were ensured through triangulation (see section 2.5). Triangulation is a validity procedure where multiple methods, sources, and theories are applied to construct different themes and categories (Bryman, 2012). In this study, the literature review, desktop analysis, and semi-structured interviews served as the data source.

1.6 Contribution of the study

Studies conducted on South African exports at the firm level primarily relied on cross-sectional survey data (see section 1.1.3). This study adopted a more targeted approach to better understand why exporting firms are not exporting to the markets identified as having a large and growing import demand for their products. Primary firm-level interview data from Small and Medium-sized enterprises (SMEs) were collected on this issue, making a unique data contribution.

Furthermore, this study adds to the limited body of literature on the behaviour of exporting firms by investigating how South African exporting firms approach IMS and why they are not exploiting export opportunities that show clear potential according to international trade data (import demand and export supply). This study also contributes to policymaking by offering insights to South African export promotion agencies on the reasons why exporting firms are missing export opportunities.

Ultimately, the study provides practical recommendations on how to deal with the most pressing export challenges that firms in the country face. In this way, the study hopes to contribute to enhancing South Africa's export performance overall.

1.7 Chapter outline

The structure of the thesis deviates from the traditional order, with the methodology being discussed in chapter 2. This change was made to better guide the reader through the different phases of the study. Because triangulation was used for ensuring the validity and rigour of the study, the literature review, desktop analysis, and interviews form part of the case study data. Thus, the methodology chapter comes first, before the literature is discussed.

Chapter 1 served as the introduction and background to the study, while chapter 2 presents the methodology and research design. It includes a detailed explanation of how the target population was determined, how the literature review and desktop analysis were approached, and how the interviews were conducted.

Chapter 3 presents the literature review on export-led growth, export promotion and diversification, firm-level IMS, and firm-level barriers to trade, while chapter 4 presents the literature review on IMS and export barriers of South African firms. Chapter 5 provides and discusses the results of the qualitative analysis, and chapter 6 concludes and recommends further research and actions.

CHAPTER 2: METHODOLOGY

2.1 Introduction

One of the objectives of this study is to contribute to the South African firm-level literature on IMS and export barriers by applying primary data collected from South African export firms. Such data would provide insightful and valuable information on the firm-level behaviour of South African exporters. A better understanding of South Africa's exporters and their IMS process is crucial for the country to grow its exports (NPC, 2013; Rankin, 2013). Evidence from firm-level primary data on export behaviour of South Africa's firms can be applied by firm managers and policymakers responsible for the country's trade policies and reforms. Thus, better knowledge and understanding of the behaviour and characteristics of South African export firms are important tools in designing the best possible strategies for the country's export growth. Moreover, a boost in exports may encourage economic growth, which has the potential to reduce tenacious unemployment levels andelevate the overall welfare of the country.

Chapter 2 consists of the methodology of the study and describes the strategies followed in the data collection for the empirical analysis. The chapter starts by describing the research paradigm that guided the study (section 2.2). The paradigm explains the ontological and epistemological considerations of the study and their implications on the choice of study design. Furthermore, the chapter discusses the research design (section 2.3), and the research methods applied to achieve the research objectives of the study (section 2.4). Rigour in qualitative research is discussed in section 2.5. Section 2.6 summarises and concludes the chapter.

2.2 Research paradigm

The word "paradigm" was first used by American philosopher Thomas Kuhn in *The Structure of Scientific Revolutions* (1962) to refer to a philosophical way of thinking. In research, a paradigm refers to the researcher's worldview (Mackenzie & Knipe, 2006), which, in turn, refers to the school of thought, the perspectives, or shared set of beliefs that inform the interpretation or meaning of data. According to Lather (1986), a research paradigm reflects researchers' beliefs regarding the world they live in and want to live in. It creates the principles that shape the way researchers see the world and how they act within that world. Thus, a research paradigm constitutes the lens through which researchers view the world around them (Kivunja & Kuyini, 2017). Researchers apply this conceptual lens to examine methodological aspects and then determine which methods to use and how to analyse the collected data.

A research paradigm consists of ontology, epistemology, and methodology. Ontology and epistemology are two different ways of viewing research philosophy. (See sections 2.2.2 and 2.2.3 for a discussion of ontological and epistemological considerations in general and their implication for this study in particular.) A variety of paradigms are used in the literature. However, according to Candy (1989), a prominent researcher in the field, research paradigms can be classified into three taxonomies, namely positivism, interpretivism and critical paradigms. Tashakkori and Teddlie (2003a, 2003b) introduce a fourth paradigm, namely the pragmatic paradigm, which incorporates elements from the three main paradigms.

This study followed an interpretivist paradigm. The sections below discuss the main attributes of the interpretivist paradigm, its epistemological and ontological considerations, and its applied research methods.

2.2.1 Interpretivist paradigm

The interpretivist paradigm aims to understand the subjective world of human experience (Lincoln & Guba, 1985). Thus, interpretivism endeavours to interpret and understand the meaning that a subject attributes to a certain context and what the subject is thinking (Kivunja & Kuyini, 2017). Research following this approach tries to grasp the observed subject's viewpoint rather than to capture the researcher's own viewpoint. The emphasis of an interpretivist approach is placed on understanding the individual and how they interpret the world around them.

The main assumption of this approach is that reality is socially constructed (Bogdan & Biklen, 1998). Therefore, the interpretivist paradigm is also referred to as the constructivist paradigm (Kivunja & Kuyini, 2017). In this paradigm, theory follows research instead of preceding it, so that theory is grounded on the collected data. Thus, data are collected and analysed in a way that is coherent with grounded theory (Strauss & Corbin, 1990).

2.2.2 Epistemology of the interpretivist paradigm

In research, the concept of epistemology refers to how we know the truth or reality, for example, how we come to know something (Lincoln & Guba, 1985; Kivunja & Kuyini, 2017; Krauss, 2005; Nguyen, 2019; Saunders *et al.,* 2009). In other words, epistemology is concerned with what is regarded as knowledge within the world (Cooksey & McDonald, 2011). It refers to the very nature of knowledge, how knowledge can be obtained, and how it can be communicated to others. Epistemology is applied as a tool to help the researcher to ask important questions such as: What counts as knowledge? How do we know the truth? (Davidson, 2000).

Researchers can apply four different sources of knowledge when answering these questions, namely intuitive knowledge, authoritative knowledge, logical knowledge, and empirical knowledge (Slavin, 1984). Intuitive knowledge is used when the researcher relies on intuition, beliefs, and faith. In cases where the researcher relies on data collected from books, people in the know, and organisational leaders, the epistemology is based on authoritative knowledge. Logical knowledge is applied when the researcher believes that reason is the most accurate way to identify the truth. Lastly, empirical knowledge is used when the researcher believes that it is best to derive knowledge from objective, demonstrable facts and sense experiences.

The epistemology of this study is based on authoritative knowledge, as the data were collected by interviewing firm managers and key personnel with high levels of knowledge and experience in the field of exports. More specifically, the study assumed a subjectivist epistemology. To construct meaning from the data, researchers following a subjectivist epistemology apply their own reasoning and cognitive processing of the data, informed by their interactions with the study's participants (Kivunja & Kuyini, 2017). When following a subjectivist epistemology, the researcher and the participants engage in interactive processes where they question, intermingle, write, listen, read, and record research data (Punch, 2005). The epistemological foundation of the current study was grounded on the concept of subjectivism, as the researcher constructed knowledge socially by personally experiencing the real-life occurrences within the investigated settings.

2.2.3 Ontology of the interpretivist paradigm

Ontology, as part of research philosophy, involves the assumptions that the researcher makes regarding the existence, comprehensibility, or fundamental nature of the social phenomena they are investigating (Fard, 2012; Lincoln & Guba, 1985; Makombe, 2017; Nguyen, 2019; Saunders *et al*., 2019; Scotland, 2012). Blaikie (2010) defines ontology in business research as "the science or study of being". Ontology explains the nature of reality and is identified as a system of beliefs regarding a person's interpretation of what constitutes as facts.

Ontology is an important component of a paradigm because it provides an understanding of what creates the world as we know it (Scott & Usher, 2004). In this way, ontology allows the researcher to examine their philosophical assumptions and underlying belief system regarding the nature of reality, existence, and being (Kivunja & Kuyini, 2017). These factors are crucial for the researcher's understanding of how meaning is made from the collected data. Thus, the philosophical assumptions, propositions or concepts help the researcher to orientate their thinking regarding the study's research

problem, its significance, and the approach they can employ to answer the research question and contribute to finding a solution to the problem.

This study adopted a relativist ontology, which assumes that the phenomenon under study has multiple realities. The researcher was thus able to explore and ascribe meaning to these realities, or the realities could be reconstructed through the interactions among the participants, and between the researcher and the subjects (Chalmers *et al.,* 2005).

2.2.4 Methodology of the interpretivist paradigm

A naturalist methodology is assumed when following an interpretivist paradigm. The researcher, serving as a participant observer, applies the data collected through reflective sessions, text messages, discourses, and interviews (Carr & Kemmis, 1986). Interpretivism is related to qualitative research methods as this paradigm typically employs various data collection tools to understand a specific phenomenon from the viewpoints or experiences of the participants (Doğru & Kalender, 2007). The researcher draws on the experiences of the participants, as well as their own experiences, to create meanings from the studied phenomena (Kim, 2005). Furthermore, the researcher evaluates the interviews with the participants to determine the real facts about the topic in question.

Data in interpretivist approaches are usually gathered through observations, visual data, document reviews, and interviews (Doğru & Kalender, 2007). Interviews afford the researcher high levels of flexibility, thus semi-structured interviews are commonly applied in this approach (Adom *et al.*, 2016). Open-ended questions are asked to encourage the participants to explain their own perspectives of the phenomena. Although these questions are somewhat structured, the researcher must ask probing questions during the interview to identify the real condition of the phenomena.

The methods applied in interpretivist research include case studies, grounded theory, descriptive studies, phenomenological studies, and narrative studies (Kim, 2005). These methods spend a considerable amount of time in an attempt to comprehend the studied phenomenon. Thus, interpretivist researchers focus on spending enough time in the natural context of the participants to make sure that the real facts of the phenomenon under study are captured (Adom *et al.*, 2016).

The interpretivist paradigm follows a balanced axiology[5], which assumes that the researcher's values will be reflected in the research outcomes (Kivunja & Kuyini, 2017). The researcher aims to provide a balanced report of the findings. Data analysis from an interpretivist paradigm is done inductively, and conclusions are drawn based on the collected data, while logical data strategies or reasoning are applied. The researcher analyses the data by carefully moving from specifics to generalisations (Adom *et al.*, 2016). Interpretivist data analysis constructs a picture of the studied phenomenon that takes shape as the collected data are analysed. Thus, it is important to be aware of the researcher's own influence, biases, and emotional responses to a setting as they play a role in shaping the interpretation of the true state of the studied phenomenon (Bogdan & Biklen, 1998).

To summarise, the study applied an interpretivist paradigm to meet the research objectives. Interpretivism assumes a subjectivist epistemology, a relativist ontology, a naturalist methodology, and a balanced axiology. Thus, the study followed a qualitative approach by conducting case study research with semi-structured interviews serving as the data collection tool.

2.3 Research strategy

The data sources for the study consisted of literature review, desktop analysis of market access to the potential export markets identified by the DSM, followed by semi-structured interviews with key personnel at South African export firms. The information from the desktop analysis and the interview responses were compared to the findings of the literature review. Based on the epistemological and ontological considerations discussed in section 2.2, and because multiple data sources were applied, a case study approach was selected as the research strategy for this study (Yin, 2014). The following section discusses the case study design that was applied.

[5] Axiology refers to the ethical issues that are taken under consideration when a research proposal is planned. It commonly considers philosophical approaches on hoewto make the right decisions or decisions of value ((Finnis, 1980).

2.3.1 Case study design

The case study approach as a research design allows the researcher to apply multiple methods of data collection, as this approach involves an in-depth study of a phenomenon (Priya, 2021). Case studies are particularly effective in obtaining extensive appreciation of a phenomenon, event, or an issue of interest, in its real-life and natural context (Crowe *et al*., 2011). Thus, case studies commonly apply qualitative research methods (Bryman *et al.,* 2014).

Yin (2009) defines a case study as "an empirical inquiry which investigates a phenomenon in its real-life context". According to Yin (2014), a case study can be:

1. *Descriptive:* The purpose of a descriptive case study is to thoroughly describe a phenomenon in its real-world context. The descriptive case study approach is used extensively in anthropology and sociology.
2. *Explanatory*: An explanatory case study approach is used when the researcher is searching for underlying factors that can help to explain a certain phenomenon. The main focus of an explanatory case study is on how and why certain conditions occur or do not occur.
3. *Exploratory*: The aim of an exploratory case study is to investigate a certain phenomenon by identifying or exploring new research questions intended to be applied in later studies.

The current research applied an explanatory case study approach as it aimed to explain the reason why South African firms do not export to markets that show consistent export opportunities according to the DSM. The study aimed to identify and explain the underlying factors causing the underutilisation of export opportunities by South African export firms.

Case study research can follow a single-, multiple- or cross-case design (Yin, 2014). A single-case study applies under the following conditions: (i) when the studied case is atypical or unique, and the study is therefore revelatory; (ii) when the aim of the case study is to test a hypothesis; and (iii) when the studied case is the quintessential example of the phenomenon being investigated (Yin, 2014). A multiple-case study is generally more robust and compelling as it is better suited to dealing with prejudices and errors occurring in the data collection process (Priya, 2021). However, these studies require a substantial amount of time and vast resources typically outside the capacity of an independent researcher (Yin, 2014). A cross-case study investigates two or more cases that share comparable phenomena or events (Yin, 2014). The purpose of the cross-case design is to construct generalisable conclusions by gathering and comparing data from various cases (Yin, 2014).

Case studies can also be classified into holistic or embedded. Holistic case studies investigate a unit as a single global phenomenon. In contrast, embedded approaches consider a single unit to be the sum of its parts. According to Yin (2004), embedded case studies contain more than one sub-unit of analysis.

Taking into consideration the abovementioned factors, a single embedded case study was found to be the most suitable approach to analyse the factors causing the underutilisation of export opportunities by South African firms.

Different data sources are commonly used in a case study design to ensure the validity of the study. This study applied a literature review, desktop analysis, and semi-structured interviews with managers at South African export firms as data sources. The inclusion of several data sources resulted in an in-depth, contextual understanding of the issues faced by South African exporters when it comes to export barriers and IMS strategies.

To summarise, a case study approach was found to be the most suitable for this study, as the study intended to apply multiple data collection methods to achieve the research objectives. Specifically, an explanatory case study design was selected, as the researcher aimed to investigate the underlying factors that can help explain why South African export opportunities are missed. Because this study analysed several sub-units, an embedded case study was the most appropriate approach to follow.

2.4 Research process

The research process followed in this study to achieve the objectives consisted of the following main phases: (i) identify South African products with consistent, untapped export opportunities; (ii) identify and contact South African firms for participation in interviews; (iii) prepare for interviews (literature review and desktop analysis); (iv) conduct interviews; and (v) analyse the data. Figure 2.1 presents the various phases followed in the research process.

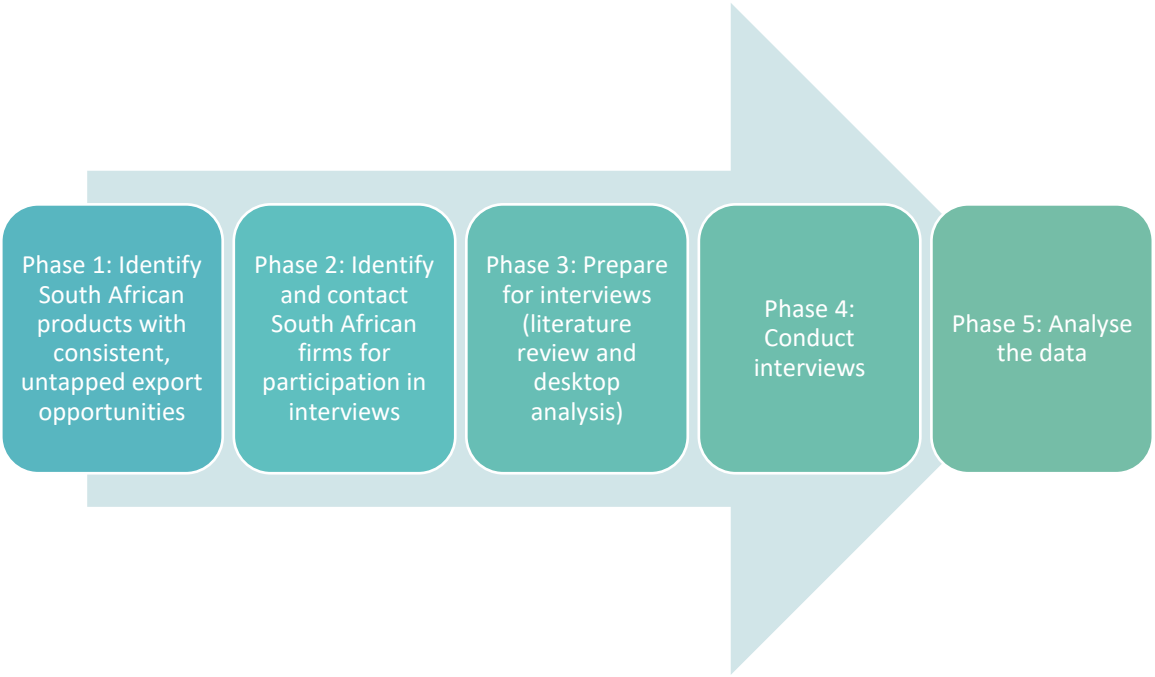

Figure 2.1: Phases followed in the research process

The following sections describe the abovementioned phases and the methodology applied to achieve the objectives of this study.

2.4.1 Phase 1: Identify South African products with consistent and untapped export opportunities (defining the case)

This study applied the selection criteria of the DSM to identify South African products with consistent and untapped export opportunities in two or more destination markets. As described in section 1.1.2, Cuyvers *et al*. (1995) developed the DSM to assist export promotion authorities in the implementation of strategies that will make the most of a country's scarce resources. In order to identify the most viable export opportunities for a particular country, the DSM applies a sequential filtering process to evaluate all possible product–country combinations (Cuyvers, Steenkamp *et al.,* 2012a). After every filter, several export opportunities are categorised as "uninteresting" as they do not meet the criteria of the particular filter and are therefore not included in the screening process in the following filters (Cuyvers, 2004). The outcome of the filtering process is a limited list of realistic export opportunities (REOs). The export country can, therefore, prioritise and focus its attention on the export opportunities presented by the DSM and avoid the risk of sacrificing limited resources on export markets that may not yield profitable trade outcomes.

Filter 1 of the DSM identifies preliminary market opportunities for the country in question. Consequently, countries whose political or commercial risks are too high are eliminated from the process (filter 1.1). The same applies to countries that do not show adequate macroeconomic size or growth (filter 1.2) (Cuyvers, Steenkamp *et al.,* 2012a). Filter 1 also allows researchers to eliminate uninteresting markets early in the filtering process and focus on a more limited set of export opportunities in the following filters (Cuyvers, Steenkamp *et al.,* 2012a). Filter 1, therefore, evaluates potential markets according to country risk, followed by a valuation of how the markets in question are performing at a macroeconomic level.

Filter 2 evaluates the different product categories at the HS 6-digit level for the remaining countries. The aim of filter 2 is to identify product–country combinations that display acceptable import market size and growth (Cuyvers, Steenkamp *et al.,* 2012a). Thus, short-term import growth, long-term import growth, and import size of the remaining product–country combinations are assessed in filter 2. A country is seen as an interesting export opportunity if it illustrates growing and/or adequately large import demand. The data of the importing countries are collected from Statistics Canada World Trade Analyzer Database (SITC 4-digit) and the United Nations Comtrade Database (HS 6-digit).

As stated by Cuyvers, Steenkamp *et al.* (2012a), being selected solely on the ground of market size and growth does not necessarily indicate that a market can be accessed easily. Therefore, trade restrictions and other barriers to entry are taken into account in filter 3 to further analyse the noteworthy export opportunities (Cuyvers *et al*., 2017). Filter 3 is divided into two sections, where filter 3.1 investigates the *degree of concentration,* and filter 3.2 analyses the *trade restrictions* (Cuyvers, 2004).

In filter 4, the REOs identified in filters 1 to 3 are categorised and prioritised (Cuyvers, Steenkamp *et al.,* 2012a). No markets are eliminated in this last stage of the analysis. Instead, filter 4 categorises the REOs identified through the screening process of filters 1 to 3 according to growth in demand, the size of the potential markets, as well as the current market share of the investigated exporting country in these markets (Cuyvers, Steenkamp *et al.,* 2012a).

The four filters of the DSM were briefly explained above. However, for the purposes of this study, all four filters were not applied. Filter 1 was not applied because the software in which it was programmed could handle the big data, without having to eliminate entire countries with all of the products involved from the beginning of the process. Also, the original filter 3.2 served as a proxy for the “absence of trade barriers”. However, as South Africa’s export performance is better than its neighbouring countries, this filter was not suitable in the South African case. Consequently, the export

specialisation of South Africa's neighbouring countries could not be utilised as a proxy for South Africa's export potential in a specific destination country (Steenkamp, 2011). In addition, the firm-level barriers to exports were specifically investigated in the interviews undertaken in this study (see phase 4). Lastly, filter 4 involves the categorisation of REOs for government export promotion purposes and prioritisation, which was not of specific interest in this firm-level study.

Hence, only filters 2 and 3.1 of the DSM were used for the purposes of this study. This approach was also followed in Mhonyera (2020), Ferreira and Steenkamp (2020a, 2020b), Ferreira *et al*. (2022) and Aucamp *et al.* (2023). Filters 2 and 3.1 of the DSM are discussed in phases 1.1 and 1.2, respectively.

Phase 1.1: Evaluate the size and growth of import demand

In this phase, filter 2 of the original DSM was applied to identify destination markets with large and growing import demand. Filter 2 evaluates the different product–country combinations at the HS 6-digit level. Thus, short-term import growth, long-term import growth, and import size of all possible world-wide product–country combinations were assessed (Cuyvers, Steenkamp *et al.,* 2012a). A country is seen as an interesting export opportunity if it illustrates growing and/or adequately large import demand.

The data of the importing countries were collected from the *Centre d'Études Prospectives et d'Informations Internationales* (CEPII) BACI database. CEPII is a French institute for research in international economics that maps the trade values reported in the United Nations Comtrade Database by the exporter (FOB[6]) and the importer (FOB) for the same trade flow. The CEPII BACI database therefore contains one trade value (instead of two, FOB and CIF[7]) for each exporter-product-and-importer combination per year. At the time this phase was applied, the 2018 trade data were the latest available from CEPII. There is usually a two-year lag because of the elaborated process of cleaning the data and correcting backdated data (Gaulier & Zignago, 2010).

[6] FOB refers to the Incoterm Free on Board.

[7] CIF refers to the Incoterm Cost, Insurance and Freight.

The variables calculated for each product–country combination entering filter 2 were short-term import growth, long-term import growth, and market size. According to Cuyvers, Steenkamp *et al.* (2012a), short-term import growth is seen as the most recent accessible, simple annual growth rate in imports. Long-term import growth is obtained by calculating the compounded yearly percentage growth in imports over a period of five years (Cuyvers *et al*., 1995; Cuyvers, 2004). In this study, the long-term import growth was calculated for 2014 to 2018. The relative import market size was determined as the ratio of country *i's* imports for product category *j* and the world's total imports of product category *j* (Cuyvers *et al.,* 1995; Cuyvers, 2004; Cuyvers, Steenkamp *et al.,* 2012a).

For the *short-term and long-term import growth*, the cut-off points are determined as follows. First the exporting country's level of export specialisation in the product is calculated:

$$Revealed\ Comparative\ Advantage\ (RCA) = \left(\frac{X_{i,j}}{X_{w,j}}\right) / \left(\frac{X_{i,tot}}{X_{w,tot}}\right) \quad \text{(Equation 2.1)}$$

Where:

$X_{i,j}$: exports of country *i* of product *j*;

$X_{w,j}$: worldwide exports of product *j*;

$X_{i,tot}$: total exports of country *i*; and

$X_{w,tot}$: worldwide exports of all product categories.

The exporting country's degree of specialisation for product *j* is then included in the cut-off values, by means of a scaling factor (S_j) (Willeme & Van Steerteghem, 1993, as quoted by Cuyvers, 1997:5; 2004:260):

$$s_j = 0.8 + \frac{1}{(RCA_j + 0.85) exp^{(RCA_j - 0{,}01)}} \quad \text{(Equation 2.2)}$$

The cut-off values for both short-term and long-term growth rates are defined as follows:

$$g_{i,j} \geq G_j$$

Where:

$g_{i,j}$ is the import growth rate of product category *j* in importing country *i*; *and*

$G_j = g_{w,j} s_{j,}\ if\ g_{w,j} \geq 0$; or (adjusting for negative growth rates)

$G_j = \frac{g_{w,j}}{s_j}\ if\ g_{w,j} < 0$;

with $g_{W,j}$ being the short-term / long-term growth rate of total world imports of product *j*.

These cut-off values imply that, in cases where the RCA is greater than or equal to 1 (RCA ≥1), indicating that the exporting country *n* is specialising in exporting product *j*, an import growth rate below (down to 80 per cent) the average world import growth rate of product *j* is accepted. If country *n* is exporting product *j* but does not have an RCA (0<RCA≤1) in product *j*, the import growth rate is required to be higher than the world average import growth rate for the product, depending on the country's level of specialisation (Cuyvers, Steenkamp *et al.,* 2012a).

The cut-off points for the relative *import market size* of country *i* for product *j* are calculated as follows (Cuyvers, 2004:260):

$$M_{i,j} \geq S_j \qquad \text{(Equation 2.3)}$$

Where:

$M_{i,j}$ represents the import market size of country *i* for product category *j*; and

$S_j = 0.02 M_{w,j}, \text{if } RCA_j \geq 1; \text{or}$

$S_j = \left[\left(3 - RCA_j\right)/100\right] M_{w,j}, \text{if } RCA_j < 1$

In cases where the exporting country *n* is relatively specialised in exporting product *j* (RCA≥1), a country's import demand is seen as adequately large if the importing country *i*'s total value of imports of product *j* is greater than or equal to 2 per cent of the world's total imports of product *j* (Cuyvers *et al.,* 2017). The criteria become progressively more stringent the less specialised the country is in its exports. Thus, if the exporting country *n* is not specialised in exporting product *j* (0<RCA<1), a country's import demand is only seen as adequately large when its total import value is between 2 per cent and 3 per cent of the total world imports of the product (Cuyvers *et al.,* 2017).

If a particular country meets the designated criteria for a specific product, a “1” is assigned in the “short-term import market growth”, “long-term import market growth” and/or “relative import market size columns” (see table 2.1). If the criteria are not met, the result is shown as a “0”. In this way, every product–country combination can be categorised into one of eight different categories. To qualify for further screening in subsequent filters, a product–country combination has to fall within category 3 or higher (Cuyvers, 2004; Cuyvers, Steenkamp *et al.,* 2012a).

For purposes of this study, only the import markets that: 1) were sufficiently large (category 3), 2) showed growth in both the short- and the long-term (category 4), or 3) were adequately large as well as showed satisfactory growth rates in the short- and/or long-term (categories 5, 6 and 7), were selected based on import demand.

Table 2.1: Categorisation of product–country combinations in filter 2

Category	Short-term import market growth	Long-term import market growth	Relative import market size
0	0	0	0
1	1	0	0
2	0	1	0
3	0	0	1
4	1	1	0
5	1	0	1
6	0	1	1
7	1	1	1

Source: Cuyvers (1997; 2004).

Phase 1.2: Evaluate the concentration of competitors in potential destination markets

As stated by Cuyvers, Steenkamp *et al.* (2012a), selection based solely on import size and/or growth does not necessarily indicate that a market can be accessed easily. Therefore, trade restrictions needed to be considered (Cuyvers *et al*., 2017).

According to Cuyvers *et al*. (1995), a market is said to be concentrated if a rather small number of exporting countries claim a relatively large share of the market. This usually makes it challenging for new exporters to penetrate the market, as the current exporters are well-known by local customers and hold a substantial amount of knowledge and experience (Cuyvers, Steenkamp *et al.,* 2012a).

Cuyvers *et al*. (1995) tested this argument and found a negative correlation between export performance and market concentration. Thus, it is not advisable to use scarce resources to pursue exporting to heavily concentrated markets (Cuyvers *et al*., 2017). To measure a potential export market's degree of concentration, the Herfindahl-Hirschman-Index (HHI) was applied in the study.

The HHI is calculated as follows (Hirschman, 1964):

$$\mathrm{HHI}_{ij} = \sum \left(\frac{X_{k,ij}}{M_{tot,ij}}\right)^2 \qquad \text{(Equation 2.4)}$$

Where:

$X_{k,ij}$ symbolises the country *k*'s export to the importing country *i* for product category *j;* and

$M_{tot,ij}$ is the total imports of country *i* for product category *j.*

If one exporting country is the sole supplier of a particular import market, the HHI-value is equal to 1, indicating that the market is highly concentrated and hard to penetrate. However, if the HHI-value is closer to 0, the import market is less concentrated with a larger number of suppliers with smaller market shares and is, therefore, easier to access (Cuyvers *et al.*, 1995; Cuyvers, 2004). The cut-off points for filter 3.1 were designed to bear in mind that market concentration is a larger obstacle in markets that are not growing, as the market share must be won from established and well-known suppliers (Cuyvers, Steenkamp *et al.,* 2012a). Consequently, the categorisation of the size and growth of import demand in the potential markets (see table 4.1) should be taken into consideration as follows (Cuyvers *et al*., 2017:11):

$$h_k \geq HHI_{ij} \qquad \text{(Equation 2.5)}$$

With:

$h_k = 0.4$ for category 3

$h_k =$ 0.5 for categories 4, 5 and 6

$h_k = 0.6$ for category 7

Thus, markets in category 3 – large, but not growing markets – are allowed a market concentration of up to 40 per cent (HHI≤0.4). Markets allocated to categories 4, 5 and 6 – growing markets – are allowed a concentration of up to 50 per cent (HHI≤0.5). For markets allocated to category 7 – large markets, showing growth in both the short and long term – a concentration of up to 60 per cent (HHI≤0.6) is allowed (Cuyvers *et al*., 2017:11).

Phase 1.3: Determine South Africa's Revealed Trade Advantage (RTA)

South Africa's competency in exporting the products under investigation was determined by using the RTA of the World Bank's Competitiveness Diagnostic Toolkit (Reis & Farole, 2012). Following Mhonyera *et al.* (2018), South Africa's RTA was determined to ensure export supply capacity. Phase 1.3 determined South Africa's sustainable exports, namely products that South Africa exports competitively over time (Mhonyera *et al.,* 2018).

The RCA index is commonly applied as an indicator of a country's relative export competitiveness of a specific product (see phase 1.1). However, this index does not take into account that a country might be a net importer, as the index only considers exports (Jessen & Vignoles, 2004). On the other hand, the RTA index considers both the imports and exports of a country and was, therefore, used in this study as a proxy for international product-level export competitiveness (Steenkamp *et al.,* 2015).

The RTA is calculated as follows:

$$RTA_j = RCA_j - Revealed\ Import\ Advantage\ (RMA)_j = \frac{\left(\frac{X_{i,j}}{X_{w,j}}\right)}{\left(\frac{X_{j,tot}}{X_{w,tot}}\right)} - \frac{\left(\frac{M_{i,j}}{M_{w,j}}\right)}{\left(\frac{M_{j,tot}}{M_{w,tot}}\right)}$$

(Equation 2.6)

Where:

$M_{i,j}$: is the imports of country *i* of product *j*

$M_{w,j}$: is the total world imports of product *j*

$M_{i,tot}$: is the total imports of country *i*

$M_{w,tot}$: is the total world imports of all products

If South Africa is a net exporter of the product and specialises in exporting the product, the RTA will be larger than zero and the RCA larger than or equal to one. As the index corrects for re-exports, an RTA index greater than zero assumes that exported products are mainly produced locally (Steenkamp *et al*., 2015; Vollrath 1991).

Phase 1.4: Potential export products and target markets

This phase matches sizeable and/or growing, unconcentrated import demand in potential target markets (determined in phases 1.1 and 1.2) to export supply capacity (determined in phase 1.3). After matching the results from the import demand and export supply analyses, South Africa's actual exports to each of these markets were determined. If South Africa's actual exports to a market (product–country combination) were equal to zero, it was considered an untapped/unutilised market.

Phases 1.1 to 1.4 were repeated for five consecutive years to identify consistent, untapped export opportunities for South Africa. If a product–country combination met all the criteria in these phases for at least three of the five years, with at least one of these three in the last two years, it was added to the shortlist for inclusion in the case study. To be included in the study, a product had to have consistent, untapped export potential in at least two markets. Table 2.2 presents the 19 products identified for the target population and their respective target markets. South African export firms that export the products, but to other markets, were therefore identified as potential participants for the interviews in the study (see phase 2).

Table 2.2: Potential export products and their potential export markets

Potential export products	**Potential export market**
HS 020130 (bovine meat)	Croatia, Republic of Korea
HS 030791 (molluscs)	Spain, United Arab Emirates
HS 071010 (potatoes)	Croatia, Germany
HS 080440 (avocadoes)	Bulgaria, Croatia, Romania
HS 110220 (maize flour)	Chile, Slovakia
HS 190420 (unroasted cereal flakes)	Spain, Sweden
HS 220600 (fermented beverages)	Greece, Malta
HS 310260 (fertilisers)	Australia, Armenia, Costa Rica
HS 310290 (fertilisers)	France, Netherlands
HS 340219 (organic surface-active agents)	Estonia, Japan, Lithuania
HS 381400 (thinners)	Maldives, former Yugoslavia

Potential export products	Potential export market
HS 391721 (plastic tubes, pipes, and hoses)	Austria, United States
HS 440290 (wood charcoal)	Armenia, Japan
HS 610463 (women's trousers)	Greenland, Hungary, Romania
HS 610520 (men's shirts)	Republic of Korea, Spain
HS 730690 (iron or steel tubes, pipes, and hollow profiles)	Maldives, former Yugoslavia
HS 760612 (aluminium plates, sheets and strip)	Latvia, Tunisia
HS 760820 (aluminium tubes and pipes)	Bosnia and Herzegovina, Serbia
HS 871640 (trailers and semi-trailers)	Poland, Romania

Source: Author's own compilation.

2.4.2 Phase 2: Identify and contact South African export firms for participation in interviews

The participants for the interviews were selected based on purposeful sampling. Potential participants were dentified by applying the ITC Trademap website using the Kompass application, which provides information regarding exporting firms in South Africa. References and contacts of the North-West University were also used to identify participants for the interviews.

The potential participants were contacted and recruited by means of telephone calls and email communication. In total, 67 emails were sent out, resulting in 11 replies of which three agreed to participate in interviews. Similarly, 45 telephone calls were made to potential participants for the study. The calls resulted in eight interviews.

2.4.3 Phase 3: Prepare for interviews

The data were collected from three sources: Source I: Literature review; Source II: Desktop analysis and Source III: Interviews. The use of several data sources strengthens the validity of the study methods (Bryman, 2012). The purpose of the literature review was to develop a thorough understanding of the context in preparation for the interviews and to formulate the interview questions. The purpose of the desktop analysis was also to prepare for the interviews and to collect data that could be used for follow-up questions where necessary, specifically on the topic of export barriers. The three data sources are discussed in the following sections.

Figure 2.2 shows the three data collection sources.

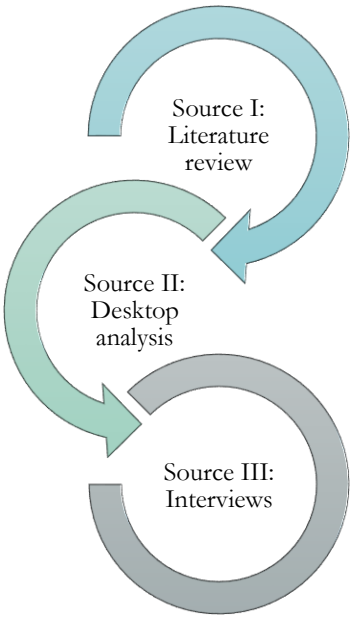

Figure 2.2: The three data sources

Phase 3.1: Comprehensive literature review

Yin (2014) emphasises the inclusion of theoretical propositions and the reviewing of relevant literature before embarking on the data collection process. Following Yin (2014), this study started with a literature review on firm-level IMS and export barriers to trade. The researcher consulted existing literature on export promotion to provide the background on why export-led policies could be beneficial for developing countries, and how export diversification can increase economic growth and development. Chapter 3 reviews the international literature on firm-level behaviour with a focus on firm heterogeneity, barriers to trade, and IMS strategies applied by export firms. Chapter 4 provides a literature review of the research conducted on these aspects regarding South Africa specifically.

To develop the most efficient strategies for South African export growth it is essential that policymakers understand the heterogeneous behaviour of South African firms over time. For these purposes, the literature review provides the background on the current research on IMS strategies and barriers to trade faced by South African export firms. The IMS processes commonly applied by export firms and the barriers they face when entering foreign markets were, therefore, identified in the literature review. In addition, a gap in the literature was identified, and context for the preparation for the interviews (e.g., follow-up questions) and analysis of the interview responses was created.

In total, 518 academic research articles were consulted in the literature review. The search engines used to identify these articles were the WorldCat Discovery, Ebsco Discovery Services, EbscoHost, and Google Scholar. Keywords used to identify articles included the following: firm-level market selection, firm-level exports, international market selection, market selection strategies, emerging markets, export barriers, trade barriers, trade theory, and South Africa's export markets.

Phase 3.2: Desktop analysis

To help prepare for the interviews, a desktop analysis was conducted. The desktop analysis was used to collect information on export barriers for South Africa exporters in the destination markets, such as logistical services efficiency, infrastructure deficiencies, border and customs efficiency, trade time, trade cost and tariffs. The desktop analysis investigated the market access to the potential export markets included in the case. The analysis also identified and investigated the factors affecting a firm's access to the potential export markets. These factors include the Logistics Performance Index (LPI), Energy Transition Index (ETI), cost to import, time to import, shipping costs, and tariff rates.

The data were collected on South Africa's exports to all the potential markets identified in phase 1, as well as for South Africa's top five current export destinations for each product. The tariff measures were also collected for South Africa's top five competitors for each of the 19 identified products. The tariff measure comparison was conducted to evaluate South Africa's competitive strength relative to the country's main competitors. The aim of the desktop analysis was to compare the potential export markets with South Africa's current export destinations with regard to tariff rates, infrastructure, import costs, shipping costs, and shipping time. The data used in the desktop analysis were collected from the sources presented in table 2.3.

Table 2.3: Data collected for desktop analysis with corresponding sources

Collected data	Data source
Current export markets	International Trade Centre (ITC) Trade Map (2020; 2022)
Tariff rates	ITC Market Access Map (2020)
Logistics Performance Index	World Bank (2020; 2022)
Energy Transition Index	World Economic Forum (2020)
Enabling Trade Index	World Economic Forum (2020)
Shipping costs	Searates.com (2021)
Time to import	Linescape.com (2021)
Cost to import	World Bank (2020)

Source: Author's own compilation.

2.4.4 Phase 4: Conduct the interviews

Methods of data collection are chosen depending on the research objectives and other requirements of a study. For instance, a quantitative study might find it most suitable to use surveys to collect data, while interviews may be the most appropriate option for a qualitative study (Yin, 2014). In studies where qualitative methods are identified as the most suitable way to conduct the research, the researcher may select among different forms of interviews, namely standardised or non-standardised, or structured or unstructured interviews (Creswell & Creswell, 2022).

This study applied a qualitative research method to collect primary data, considering it the most suitable approach for achieving the research objectives. Given that structured interviews are more commonly associated with quantitative research, semi-structured interviews were conducted in this study, aligning more closely with qualitative research practices.

According to Cohen and Crabtree (2006), characteristics of semi-structured interviews include the following: (i) a formal meeting between the interviewer (researcher) and the interviewee (respondent); (ii) a list of topics and questions pre-prepared by the researcher to direct the conversation towards achieving the research objectives; and (iii) the researcher straying from the list of planned questions to follow topical trajectories as the interview progresses. Consequently, semi-structured interviews give the researcher the opportunity to collect significant information regarding the research topic.

For this study, interviewing the relevant firms was expected to reveal valuable and insightful information regarding their missed export opportunities and current IMS practices. To avoid influencing the conversation to evolve around any specific themes or issues, the interviews consisted of open-ended questions (see addendum B). Posing qualitative open-ended questions provided an understanding of the interviewee's opinions, experiences, and attitudes towards the specific topic. Thus, open-ended questions allowed the interviewer to gain a higher level of understanding of the specific topic compared to any other research method.

The interviews revolved around the topics of IMS, export barriers, and the underlying reasons why the firms are not exporting to the potential markets identified as export opportunities. The open-ended questions were composed based on the problem statement of the study and were designed to provide information regarding the research topic and objectives. Thus, the questions encouraged the interviewees to discuss their IMS strategies, export barriers, and reasons for not exporting to the countries identified as potential export opportunities. Based on their responses a qualitative analysis was done of the underlying factors causing the underutilisation of export opportunities by South African firms.

The study employed a purposeful sampling technique to collect the data. Interviews with firms with two or more unutilised export opportunities were conducted until data saturation. Data saturation occurs when no new value-added information is encountered in the data collection process and sufficient data have been gathered for the researcher to be able to draw conclusions (Creswell, 2014). In this study, data saturation was reached after the seventh interview as the following interviews confirmed already mentioned statements and no new insight was gained.

In total, 11 interviews were conducted. The interviews were conducted online by using Microsoft Teams and each lasted approximately 45 to 60 minutes. The participants were managers or other key personnel with adequate knowledge and understanding of the export environment of the company they represented. An independent person was present in the interviews and ensured that the formalities involving the informed consent form were adhered to (see addendum A).

2.4.5 Phase 5: Analyse the data

The data collected from all three main data sources were analysed, namely data from the literature review, the desktop analysis and the interviews.

2.4.5.1 Analysis of the literature

The literature review was conducted to provide theoretical background on the behaviour of export firms. This information was valuable because findings from the existing literature were needed for a comparison with the results from the interviews with managers at South African export firms. Thus, the literature was analysed to identify internal and external barriers faced by firms when engaging in exports. Furthermore, the literature review identified the most commonly applied IMS strategies of exporting firms.

Analysing the literature revealed that trade barriers are a significant obstacle for firms that want to expand their business to include foreign markets. A gap in the knowledge on IMS of developing countries, including South Africa, was also revealed. The primary data collected in the empirical part of this study, therefore, provided insightful information on the actual IMS strategies applied by South African export firms, as well as the trade barriers they face when engaging in exports. The findings were compared to the trade barriers and IMS strategies found in the existing literature. This comparison was useful for showing whether the South African export firms participating in this study face the same export barriers and apply similar IMS strategies as those identified in the literature. In this way, the study adds new insight from the South African perspective to the current literature.

2.4.5.2 Analysis of the desktop analysis

Desktop analysis was conducted to identify and evaluate the factors influencing the ease of market access for South African firms. The data collected from the desktop analysis were evaluated for the potential export markets identified in phase 1. To compare the characteristics of the potential export markets with South Africa's current export markets, data were collected on South Africa's current top five export destinations for each of the 19 products. The findings of the desktop analysis were compared with the findings of the interviews. Thus, the aim of the desktop analysis was to compare the market access data collected from secondary data sources with the export barriers identified by the participants in the interviews. The desktop analysis was also used to prepare for the interviews and help identify incorrect perceptions about export barriers.

2.4.5.3 Analysis of the interviews

After the interviews, the responses were transcribed, and a thematic analysis was done. The qualitative data analysis software ATLAS.ti was used in the data analysis. The data were coded to group the information into meaningful categories (Yin, 2014). The codes were further grouped into different categories and themes. Each theme represented the main findings of the interviews. The findings from the interview and desktop analysis were compared with the findings from the literature review and are discussed in Chapter 5 and 6 of the thesis.

Thus, the data collected in the study were presented by examining the codes, categories, and themes that was constructed based on the findings from the interviews and desktop analysis. Data collected from the desktop analysis were incorporated to add further information regarding market access challenges (e.g., high tariff rates, issues related to customs or cultural differences).

A six-step linear, hierarchical approach to thematic analysis has been suggested by Creswell (2014). The thematic analysis presented in chapter 5 followed Creswell's (2014) six-step approach:

Step 1: Organise and prepare the data

The first step includes the transcribing of the interviews and optically scanning the collected data materials, writing up field notes, and sorting and arranging the data.

Step 2: Obtain a general sense of the data

The thematic analysis starts by obtaining a broad sense of the data and reflecting on the general meaning of the information gathered (Creswell, 2014). This step involves reading through all the data collected.

Step 3: Code the data

Coding is an essential tool when converting raw data into a trustworthy and communicative "story" (Linneberg & Korsgaard, 2019). The essence of coding involves analysing a coherent portion of empirical material and summarising the content of the material with a short phrase or a single word (Friese, 2019). Coding helps to reduce the large amounts of information gathered in qualitative research and makes the collected data readily available for further analysis (Miles & Huberman, 1994).

Step 4: Describe the data

A detailed description of the information gathered through the interviews is presented in the fourth step. This involves grouping the codes into broader categories and themes for further analysis. The themes appear as major findings of the analysis and are commonly used to create the headings in the findings and results section of the study (Creswell, 2014).

Step 5: Present a qualitative narrative

In step 5, the themes are transformed into a qualitative narrative. According to Creswell (2014), the most common way to achieve this is to construct a narrative passage describing the findings of the qualitative analysis. The findings might be presented through a detailed discussion of the themes (including sub-themes and quotations), a discussion with interconnecting themes, or a discussion of a chronology of events (Creswell, 2014).

Step 6: Interpret the data

The final step in the qualitative data analysis involves the interpretation of the data. This step aims to make meaning of the collected data and to identify the "lessons learned" from the data analysis process (Creswell, 2014).

The six steps as applied to this study are described in chapter 5, section 5.2.

2.5 Rigour in qualitative research

Rigour in qualitative research refers to the consistency, meticulousness, and transparency of a research study (Maher *et al.*, 2018). Rigour is the application of disciplined, stringent, and systematic research methods to ensure the trustworthiness, dependability, confirmability, and credibility of research findings (Cypress, 2017; Yin, 2014).

To ensure rigour, Yin (2014) suggests measuring the quality of a case study against the following criteria: (i) construct validity: involves establishing correct operational measures for the studied concept; (ii) internal validity: ensures that causal relationships are established, by which certain circumstances result in other circumstances; (iii) external validity: ensures that the findings can be generalised beyond the study under investigation; and (iv) reliability: ensures that the operations and procedures of a case study will give the same results and conclusions when repeated.

In this study, construct validity was ensured through the triangulation of multiple data collection strategies and several sources of evidence. According to Creswell and Creswell (2022), triangulation refers to a validity procedure where the researcher uses multiple data sources, methods, and theories to create different themes and categories. A combination of research methods and data sources was applied when collecting the data for this study, including a literature review (phase 3.1), desktop analysis (phase 3.2), and semi-structured interviews (phase 4). Applying several data sources increases the validity of the research study (Creswell & Creswell, 2022).

To ensure internal validity, analytical techniques were employed to compare the findings from the interviews with the findings of the literature review and desktop analysis. Coding was used to identify patterns and similarities in the responses of the participants. Thus, the support evidence collected in the desktop analysis and literature review ensured internal validity. Rich and thick descriptions of the collected data allowed the researcher to add substantial detail to the discussion of the themes in this thesis (Yin, 2014). According to Nowell *et al.* (2017), detail can be added by applying strong action words, interconnecting the codes and themes, and using quotes. This study connected the data collected from the different sources by creating codes, themes, and categories and applying direct quotes from the participants to add richness. Furthermore, external validity was ensured by applying theory in the case study as part of the literature review.

The reliability of a research study can be ensured by obtaining detailed field notes (Creswell & Creswell, 2022) through, for example, high-quality recordings of the interviews. The recordings must be transcribed to identify trivial but often important details. The transcripts are coded to create themes and categories. In this study, the software programme Otter.ai was used to record and transcribe the interviews. The transcripts, codes, categories, and themes created from the interviews were cross-checked to ensure reliability.

2.6 Summary

The aim of this study was to contribute to the literature on the export behaviour (specifically export market identification and challenges faced when exporting) of South African firms by collecting primary data from key employees in South African export firms. The valuable, first-hand information obtained in this way can be applied by firm managers and policymakers to develop export strategies that can aid in increasing the country's export levels.

The study followed an interpretivist research paradigm, which focuses on understanding the observed subjects' viewpoints rather than the viewpoint of the researcher. The interpretivist paradigm assumes a relativist ontology, which implies that the studied phenomenon has multiple realities. Furthermore, this paradigm assumes a subjectivist epistemology, indicating that the researcher applies their own reasoning when analysing the collected data. The current study assumed a naturalist methodology and a balanced axiology, which indicates that the researcher acts as a participant observer in the study and that their values will be reflected in the research outcomes.

Based on the epistemological and ontological considerations of this study, and the fact that multiple data sources were consulted, a case study approach was chosen as the most suitable research design. Specifically, an explanatory case study design was followed to investigate the underlying factors that contribute to missed South African export opportunities. Because the research entailed an analysis of several sub-units, an embedded case study approach was deemed the most appropriate. To ensure qualitative rigour, the research adhered to the following criteria: construct validity, internal validity, external validity, and reliability. Triangulation was applied by using multiple data sources.

The research process consisted of five main phases. Phase 1 identified South African products with consistent, untapped export opportunities in two or more destination markets by using the DSM. The size and growth of import demand was evaluated in filter 2 of the DSM (phase 1.1). In filter 3.1 the concentration of competitors in potential destination markets was evaluated (phase 1.2). South Africa's RTA was determined to ensure export supply capacity (phase 1.3). In total, 19 products that have two or more unutilised markets were identified, resulting in 42 product–country combinations (phase 1.4).

Phase 2 involved identifying and contacting South African firms for interviews. The potential participants were identified through the Kompass application on the ITC Trademap website and via contacts of the North-West University. The exporters were contacted by means of emails and telephone calls.

Phase 3 entailed preparations for the interviews. The data collection consisted of a literature review, desktop analysis, and interviews with key personnel at South African export firms. The literature review analysed existing literature to identify IMS strategies of South African export firms and the barriers they face when engaging in exports. The desktop analysis collected data on South Africa's market access into the potential export markets and served as support documentation for the interviews.

In phase 4 the interviews were conducted. In total, 11 semi-structured interviews were conducted to collect data on the IMS strategies of South African firms. The interviews were conducted online by using Microsoft Teams and addressed the topics of firm-level IMS strategies and export barriers.

Phase 5 consisted of the data analysis. The trade barriers and IMS strategies identified in the literature and the information gathered in the desktop analysis were compared with the findings from the interviews. This was done to determine whether South African export firms experience similar (or unique) trade barriers and apply IMS strategies similar to those identified in the existing literature. However, the literature review identified a gap in the available research on the IMS strategies of South African firms. The aim of this study was thus to contribute to the literature on firm-level IMS by applying primary data collected from South African export firms. Chapters 3 and 4 present the literature review of this study.

CHAPTER 3: LITERATURE REVIEW ON FIRMS IN INTERNATIONAL TRADE

3.1 Introduction: Firms in international trade

One of the objectives of this study was to provide a literature review on firm-level IMS and export barriers. This Chapter discusses the trade theory applicable to this study, IMS strategies commonly applied by firms when selecting new markets for their products, and export barriers faced when selling their products internationally. Much of the research in recent years has highlighted the potential benefits of international trade on a firm level, including an increase in returns to scale, consumer preference for variety, and comparative advantage (Edwards *et al.*, 2008; Ashley *et al.,* 2022). Yet, a remarkably low percentage of firms globally engage in international trade (Díez *et al.,* 2016). In the United States (US), only 6 per cent of firms exported their products in 2019 (Kamal *et al.,* 2022).

Exporting is also relatively rare in South Africa, where most firms derive only a small share of their profits from exports. (Chapter 4 provides more detail on South African exporting firms.) Although a reasonably large number of South African firms do export, only a few consider exports to be their main activity (Cebeci *et al.*, 2012; Edwards *et al.*, 2008; Gumede & Rasmussen, 2002; Naughtin & Rankin, 2014; Rankin, 2001, 2013).

A range of literature on the role of firms in facilitating imports and exports has been published since the mid-1990s. Most of these studies indicate that firms engaging in trade differ significantly from firms merely operating in the local market. Exporting firms are generally larger, more productive, have a larger skilled workforce, pay higher wages, and are more capital intensive than firms that do not engage in exports (Aw *et al*., 2000; Bernard & Jensen, 1995, 1997; Bernard & Wagner, 2001; Clerides *et al*., 1998; Eaton *et al*., 2011; Katsikeas *et al*., 2000; Sousa, 2004; Sterlacchini, 2001; Wagner, 2001). Firms that export usually possess a productivity advantage, which suggests self-selection. Exporting firms are, therefore, more productive than non-exporters, as only firms that are the most productive will be able to deal with the increased costs related to entering a foreign market (Eliasson *et al*., 2012). However, the activity of exporting itself is not necessarily the only reason why exporters are more productive than non-exporters.

Traditional trade models have faced several challenges after the introduction of new empirical research. The following sections highlight the way these challenges have changed the emphasis in the field of international trade towards firms and products, and away from countries and markets. To better understand firm-level export behaviour, this chapter discusses how differences between exporting and non-exporting firms have resulted in the development of several heterogeneous-firm models and how these models provide new insight into the causes and consequences of international trade.

Chapter 3 starts by addressing the topic of traditional trade theories, as these theories create the foundation for greater insight into the reasons why firm-level behaviour plays such an important role in countries' economic growth and development, particularly in the case of developing economies. Thus, section 3.2 focuses on international trade theory and firm productivity and heterogeneity in the context of trade theory. Section 3.3 analyses the firm-level behaviour and characteristics of exporting firms, as they differ from those of non-exporters. Various factors have been highlighted in the literature as important determinants of firm export performance. The main determinants are discussed in section 3.4 to obtain a better understanding of how firms perform and operate in international markets, including internal and external barriers for exporting firms, export motives, and exporters' advantages. Lastly, section 3.5 addresses firm-level IMS strategies, as these strategies are essential for succeeding in foreign markets. Section 3.6 summarises and concludes the chapter.

3.2 International trade theory: A focus on firms

When economists discuss the implications and origins of international trade, little attention is usually paid to the firms that are, in fact, responsible for international trade flows. The South African government has acknowledged that increasing exports is vital for improving the country's economic growth, development, and employment levels (Department of National Treasury, 2019; NDP, 2013). The government has set the objective of annual export growth of 6 per cent in volume terms. To achieve such an objective, it is essential to understand the country's aggregate exports dynamics, namely the characteristics and export behaviour of South Africa's exporting firms (Edwards *et al*., 2008). A better comprehension of heterogeneous firm-level export behaviour can improve policymakers' understanding of the underlying causes and consequences of international trade (Melitz, 2003).

The following sections revisit traditional and more recent trade theory, as these theories lay the foundation for understanding firm-level export behaviour. An assessment is made of international trade theory and the development of these theories to include firms as an important determinant of a country's success in foreign markets. This includes an overview of the background on international trade theory by explaining the concepts used in traditional and more recent trade theory. Trade liberalisation and firm productivity in the context of trade theory are explained, focusing on their implications for countries' welfare gain and economic development. Traditional and new trade theories have faced empirical challenges as theoretical trade models started to emphasise the importance of firm heterogeneity in increasing productivity and international trade flows. Lastly, the concentration of export firms within the context of trade theory is discussed by examining the fact that a country's trade is usually concentrated to include only a small number of trading partners or products.

3.2.1 A brief overview of international trade theories

Traditional international trade theories have focused on the flow of goods between countries. The theory of comparative advantage explains a country's ability to produce a good or service at a lower opportunity cost than its competitors (Ricardo, 1911). The country can then sell its products or services at a lower price than its competitors and therefore, gain higher sales margins. Both the Ricardian model and the Heckscher-Ohlin model address the concept of comparative advantage. According to the Ricardian model, an economy can gain a comparative advantage due to the differences in countries' productivity. Ricardo (1911) explained comparative advantage by means of the following example:

> If English labourers are relatively more productive in producing cloth than wine in comparison to Portuguese labourers, then England should focus on producing cloth and Portugal should focus on producing wine. Then, at least one of the countries will become fully specialised in one of the two sectors.

The Heckscher-Ohlin model was developed by the Swedish economist Eli Heckscher (1919), together with his pupil, Bertil Ohlin (1933). The model differs from the Ricardian model in two ways: Firstly, the framework of the Heckscher-Ohlin model is more realistic than that of the Ricardian model, as it introduces capital as an additional factor of production. Secondly, comparative advantage, according to the Heckscher-Ohlin model, is determined by variations in factor endowments across countries, and not by technology differences, as is the case in the Ricardian model. Countries, therefore, possess similar production technologies in the Heckscher-Ohlin model. Consequently, a

country gains a comparative advantage as a result of a combination of cross-industry differences in factor intensity and cross-country differences in factor abundance (Heckscher, 1919; Ohlin, 1933).

The concept of “inter-industry trade” is considered a key implication of traditional trade theory and is used in both abovementioned theories (Ruffin,1999). In inter-industry trade, a country is exporting from one set of industries, while importing from another. Traditional, endowment-driven models of international trade also offer a mechanism to explain how international trade influences income distributions and relative factor rewards. Specialisation across different industries that vary in factor intensity changes the relative demand for the different factors of production, and thus affect real income and capital returns. However, in reality, a considerable amount of international trade takes place between similar countries, within the same industries, like the US and Germany that trade in automobiles (Grubel & Lloyd, 1975).

More recent trade theories were developed by Krugman (1980), Helpman (1981), and Ethier (1982). A combination of consumer preference for variety and economies of scale is central in these models, leading otherwise identical firms to specialise in distinct horizontal varieties and encouraging inter-industry, or two-way trade, between countries. Thus, the newer trade theories attribute welfare gains to broader product varieties, while older trade theories attribute welfare gains to differences in opportunity costs of production across countries and industries.

Helpman and Krugman (1985) combined the old and new theories of trade by introducing increasing returns to scale and horizontal product differentiation into a model presenting endowment-based comparative advantage. Helpman and Krugman’s “integrated” framework quickly became a standard model for international trade analysis. The model was adapted to include factor price inequalities, technology differences, and trade costs, enabling it to explain the patterns of aggregate international trade in a relatively successful manner (Helpman, 1999).

Both traditional and new trade theories include the assumption of a representative firm in every industry. This assumption facilitates the general equilibrium analysis that is central to international trade theory. However, the theory of a representative firm encounters inconsistency due to considerable variations in skill intensity, capital intensity, and productivity among firms within the same industries. The fact that heterogeneity among firms exists is not necessarily problematic for international trade theories. Although the assumption of a representative firm is not perfectly realistic, it could serve as a convenient simplification. The interaction of the various characteristics of firms and their export orientation thus presents a pathway through which international trade can impact aggregate productivity.

3.2.2 Trade liberalisation and firm productivity in the context of trade theory

According to the traditional trade theories with their focus on comparative advantage, trade can lead to welfare gains as a result of specialisation. In the newer trade theories, a combination of the expansion of available product varieties and economies of scale is responsible for welfare gains (Medin, 2014). Empirical studies of firm-level trade liberalisation provide evidence for another source of welfare gains, namely aggregate productivity growth, which is determined by the entry and expansion of high-productivity firms into export markets, and the contraction and exit of low-productivity firms from export markets (Bernard & Jensen, 2004; Pavcnik, 2002; Tybout, 2003). Average industry productivity increases by the reallocation of resources from firms with low productivity to firms with high productivity. When competition in the product market increases, encouraged by trade liberalisation that results in lower price mark-ups over marginal costs, these welfare gains could be magnified (Bernard & Jensen, 2004). Thus, an increase in average productivity and a reduction in mark-ups will both lead to higher real incomes and lower prices.

Pavcnik (2002) found that approximately two-thirds of Chile's 19 per cent increase in aggregate productivity – after the country's trade liberalisation in the late 1970s and early 1980s – was the result of increased growth and survival rates of high-productivity firms. A substantial number of studies on the trade liberalisation reforms of developing countries have found similar results, as discussed by Tybout (2003). According to these studies, the within-industry resource reallocation dominates the across-industry resource reallocation as emphasised in the traditional trade theories of comparative advantage. Thus, in the labour market, the net variation in employment among industries, as implied by the concept of comparative advantage, is relatively small compared to the growth variation in employment resulting from concurrent job creation and job destruction within industries (Tybout, 2003).

Yet, an area of concern is that the link between increases in trade and the relative expansion of higher-productivity firms in developing countries may not be solely driven by changes in trade policy, as trade liberalisation is often part of a more comprehensive bundle of economic reforms. However, Trefler (2004) and Bernard, Jensen *et al*. (2006a) found similar productivity gains from the expansion of high productivity exporting firms as a result of a reduction in trade barriers in the US and Canada.

According to Trefler (2004), the effect of Canada's tariff reduction on industry productivity is approximately twice as large as the effects on firm productivity. This implies a market share reallocation which favours high-productivity firms. Bernard, Jensen *et al.* (2006b) investigated the resource reallocation effect of trade cost reductions in the US by analysing the probability of firm

survival.[8] A measure of trade cost was used as one of the key explanatory variables, including shipping costs and tariff rates at the industry level. By controlling for various other firm characteristics, their findings showed that firm death[9] is more likely to occur as trade costs drop. They also found that the lowest-productive firms were more susceptible to firm death as a result of a fall in trade cost, compared to higher-productivity firms (Bernard, Jensen *et al.,* 2006b).

Similarly, Bernard, Jensen *et al.* (2003) found evidence of a higher probability of firm death among industries with falling trade costs. Their findings suggest a positive correlation between declining trade costs and the number of firms that successfully enter foreign markets. Furthermore, already exporting firms tend to increase their exports as trade costs fall.

The abovementioned findings confirm that an increase in aggregate productivity levels occurs due to a reallocation of activities across firms as trade costs decline. These findings emphasise the heterogeneity of a firm's performance within industries, highlighting the notion that trade liberalisation can have both positive and negative implications for firms. However, the findings are not equally applicable to all industries and seem to apply the strongest to industries producing tradable goods that are horizontally differentiated (Bernard, Eaton *et al*., 2003).

The link between aggregate productivity and trade liberalisation is not limited to the relative expansion and growth of high-productivity firms. Pavcnik (2002) found that one-third of the increase in aggregate productivity after the liberalisation in Chile might be attributed to within-plant productivity gains due to resource reallocation across activities within the firms. Similar findings were documented by Trefler (2004), who found that the Free Trade Agreement (FTA) between Canada and the US increased the labour productivity in manufacturing firms in Canada by 7.4 per cent.

A link between declining trade costs and within-firm productivity growth in the US was also proven by Bernard, Redding *et al.* (2006b). In their study, firms' TFP was used as the dependent variable, and the changes in industry trade costs served as the explanatory variable. Their findings showed a significant and negative association between industry-level trade costs and firm-level productivity growth, with a decline in trade costs of one standard deviation, implying an increase of productivity of 2.3 per cent.

[8] "Firm survival" is defined as the probability that a firm will continue its operations rather than exiting an industry (Hannan & Freeman, 1984; Suarez & Utterback, 1995).
[9] "Firm death" refers to the voluntary or involuntary closure of a firm (Daepp *et al*., 2015).

Even though trade liberalisation increases aggregate productivity through all industries and encourages within-industry reallocation, the industry with comparative advantage has stronger productivity growth (Osotimehin, 2019). Greater opportunities to export in industries with comparative advantage result in a more substantial increase in factor demand compared to industries with no comparative advantage. This leads to a rise in the relative price of factors of production applied intensively in the comparative advantage industries, which causes a larger exit of low-productivity firms from these industries compared to those in the comparative disadvantageous industries (Osotimehin, 2019). Such a variation in productivity growth across industries leads to greater variances in average industry productivity, contributing to factor-abundance-based comparative advantage (Bernard, Jensen *et al.,* 2006a). Thus, international trade creates an additional source of welfare gain.

In this framework, the implications of trade liberalisation extend beyond increased aggregate welfare gains, as it also influences the income distribution across factors of production. Average industry productivity gains that emerge from trade liberalisation reduce the prices of products and consequently increase the real income of all the factors of production. In cases where the increase in productivity is sufficiently high, the real income of the scarce factors of production in a country may even increase during trade liberalisation, which contradicts the widely known Stolper-Samuelson proposition[10]. In general, the productivity gains encouraged by heterogeneous firm behaviour help mitigate the decrease in the real income of a country's scarce factors of production, a decline that would otherwise occur in a more neoclassical environment (Melitz & Redding, 2012).

Standard trade models on product variety proliferations and comparative advantage have not focused on aggregate productivity growth or trade at the firm level. Nevertheless, trade liberalisation results in faster growth in employment and firm outputs in high productivity exporting firms, contributing to increased aggregate productivity. Thus, evidence points towards an important but less pronounced effect of trade liberalisation on firm productivity, which, in turn, will increase aggregate productivity (Bernard, Jensen *et al.,* 2006a).

[10] In a neoclassical framework with two factors of production and two final goods, the Stolper-Samuelson theorem shows how variations in the prices of outputs influence the factor prices when zero economic profit and a positive production are maintained in the industries. For example, a price increase of a capital-intensive good results in a rise of the return to capital and reduces the return to the other factor (labour). Similarly, an increase in the price of labour-intensive goods results in a rise in wage and a fall in rental rate (Melitz & Redding, 2012).

3.2.3 The introduction of firm heterogeneity into trade theory

Empirical challenges to traditional and newer trade theories have resulted in the development of broader theoretical trade models, highlighting the importance of firm heterogeneity[11] in improving international trade and encouraging aggregate productivity growth. For example, Bernard, Jensen *et al.* (2003) introduced stochastic firm productivity into Eaton and Kortum's (2002) multi-country Ricardian model, while Melitz (2003) introduced firm heterogeneity to Krugman's (1980) intra-industry trade model.

The framework of Melitz (2003) has spurred the development of numerous analyses exploring the implications of firm heterogeneity for several international trade issues. This model incorporates a competitive fringe, allowing for the possibility of potential firms entering a certain industry by paying a fixed entry cost, which becomes a sunk cost upon payment. However, the potential firms face uncertainty regarding their level of productivity in the industry concerned. Their productivity is drawn from a fixed distribution as soon as the sunk entry cost is paid, and it remains fixed thereafter. Nonetheless, these firms are confronted with a persistent exogenous probability of not surviving. Under monopolistic competitive conditions, firms produce horizontally differentiated variations of products within the industry. Due to the fixed production costs, firms producing below a certain lower threshold (the "zero-profit productivity cut-off") would experience negative profits if they continued to produce (Melitz, 2003). Consequently, these firms opt to exit the industry. The introduction of fixed and variable export costs ensures that, among the active exporting firms within an industry, only firms that are producing above the export productivity cut-off are considered surviving firms, earning a positive profit (Melitz, 2003). The number of new firms entering the industry and producing above the zero-profit productivity cut-off are equal to the number of existing firms that die within the industry, as a result of the steady-state number of firms that are active within the industry.

In Melitz's (2003) model, declining trade barriers lead to an increase in the profits that existing exporting firms can generate in foreign markets and lower the export productivity cut-off threshold at which firms start to export. The demand for labour rises within the industry owing to the entry of new firms and the expansions of the existing exporters. In turn, the upsurge in demand for labour leads to an increase in factor prices and a decrease in non-exporter profits. The domestic markets' decline in profits induces low-productivity firms, which were already performing poorly, to exit the industry.

[11] "Firm heterogeneity" in trade theory refers to the differences in firm characteristics that may explain the differences in firms' behaviour when operating in foreign markets (Serrano & Myro, 2019).

As employment and output are transferred towards firms with higher productivity, and low-productivity firms exit the industry, the average industry productivity increases (Melitz, 2003).

Several empirical challenges to both traditional and new trade theories are addressed in heterogeneous-firm models. These models capture the interactions between international trade and firm heterogeneity and explain the productivity advantage that is gained by the most highly productive firms when they self-select into exporting. This type of microeconomic heterogeneity may lead to macroeconomic outcomes like higher employment levels and economic growth (Kaplan & Violante, 2018). As trade barriers decline, and trade costs fall, the level of aggregate productivity increases as a result of a reallocation of activities across the firms within the industries concerned (Bernard, Jensen *et al.*, 2003; Melitz, 2003; Osotimehin, 2019; Yeaple, 2005). During this reallocation, exporting firms show a more rapid growth pattern compared to non-exporters when it comes to employment and firm size. Consequently, productive non-exporting firms enter the market, high-productivity exporting firms survive and grow, while low-productivity non-exporting firms might fail and exit the market (Helpman *et al*., 2008; Yoshino, 2008). This reallocation of economic activity among firms leads to an increase in aggregate productivity, providing for a non-traditional source of welfare gains as a result of trade. Thus, heterogeneous-firm models analyse simultaneous job destruction and job creation within industries, as high-productivity firms expand, and low-productivity firms exit the industry.

In the framework of Melitz and Ottaviano (2005) and Bernard, Jensen *et al*. (2003), the price mark-up over marginal costs is endogenous and declines as the import competition heightens due to a decline in trade costs. Bernard, Redding *et al*. (2007) integrated heterogeneous firms into Helpman and Krugman's (1985) trade model. This adapted model focuses on explaining the reason why certain countries tend to export more in some industries than in others (endowment-driven comparative advantage). Furthermore, their framework explains the reason why two-way trade is detected within industries (firm-level horizontal product differentiation combined with increasing returns to scale) and why, within industries involved with these two types of trade, some firms export while others do not (self-selection driven by trade costs). Thus, as confirmed by the empirical findings of Bernard, Redding *et al.* (2007), the fraction of firms exporting and the export share in firm shipments differ systematically across the various industries and countries with a comparative advantage.

3.2.4 Concentration of export firms within the context of trade theory

Trade liberalisation has led to a substantial reduction in tariffs and the elimination of export quotas for many countries (Navas & Licandro, 2011). This has drastically heightened competition, making it increasingly important for firms to select the right export products for each of their trading partners to ensure their survival in the export market (Hausmann & Rodrik, 2006). Export concentration can be explained as the degree to which the exports of a country are traded to one or a few trading partners or involve a limited number of products (Mohr *&* Fourie, 2008). If a country exports only one product to one single trading partner, the country's export portfolio is perfectly concentrated (Ukav, 2017). On the other hand, a country has a more diversified export portfolio and a lower Export Concentration Ratio (ECR) if it exports a greater number of products and trades with several trading partners (UNCTAD, 2018).

Across firms, exports are highly concentrated to include only a few industries and destinations, particularly in developing countries (Ali *&* Khan, 2017). Low levels of export diversification in terms of products and markets impede economic growth and create several macroeconomic challenges (Medas *et al.,* 2016; UNCTAD, 2016). Countries lacking adequate levels of export diversification are directly affected by external shocks occurring in the destination markets (Bacchetta *et al*., 2007; Briguglio *et al.*, 2009; World Bank, 2010). Furthermore, it is important for countries to select the right export portfolio e.g., product and country combination, as customers' purchasing power and taste differ significantly across countries.

According to a report oneconomic development in Africa from UNCTAD (2022b), Africa is the most concentrated region after Oceania. The report found that the export structure of African countries is the most concentrated when the unequal distribution of export shares over products are considered. Guinea-Bissau is the least diversified country in Africa as it exports only 178 product lines (UNCTAD, 2022b). The period 2000-2009 experienced an increase in export diversification on average in the African region. However, the level of export concentration increased in the period 2010-2019 (UNCTAD, 2022b). Less than 50 per cent of African countries managed to diversify their exports over the last two decades (UNCTAD, 2022b). Mali, Chad, Libya, Angola and Guinea-Bissau are the five countries with the highest levels of export concentration. Over the last 20 year, Angole is the only country that has managed to increase their diversification, however marginally. The five countries that experienced the largest improvements over the period 2000-2019 are Rwanda, Burundi, Ethiopia, Mauritius and Egypt (UNCTAD, 2022b).

Bernard *et al*. (2009) investigated the behaviour of US firms in 2000. With regard to trade value (sum of imports and exports), their findings showed that the leading 1 per cent of US trading firms account for more than 80 per cent of the value of total trade. Moreover, the leading 10 per cent of US trading firms were responsible for more than 95 per cent of the total trade value. Thus, the top 1 per cent of US trading firms had an employment share of 14 per cent the same year, while the top 10 per cent of trading firms showed an employment share of 24 per cent (Bernard *et al*., 2009). In the context of South Africa, exports are also highly concentrated, as 1 per cent of the total number of exporters account for 79 per cent of the country's export value (Rankin, 2013). This number is relatively large, compared to the international standard of 55 per cent on average.

Existing trade theory regarding the heterogeneity of firms clarifies the high level of concentration by means of two scenarios. Initially, the high level of concentration can stem from an unequal productivity distribution across firms, resulting in a similarly unequal distribution of trade (Bernard, Jensen *et al*., 2007). Alternatively, the levels of concentration may be a consequence of severely high levels of elasticity of substitution between firms' product varieties. Thus, a small difference in price and firm productivity can lead to substantial differences in the sales of the products concerned, as low-priced product varieties could easily be substituted for high-priced product varieties (Melitz & Trefler, 2012).

Other explanations for the large concentration of trade include relatively simple supplements to existing models of heterogeneous firms. Firstly, economies of scale in marketing and distribution in foreign markets may favour the concentration of trade among a small number of producers (Hottman *et al.,* 2016). Secondly, if sunk costs were involved when trading with specific destinations, and if these destinations differed in their level of profitability, more productive exporters would tend to export to a larger number of destinations (Hottman *et al.,* 2016). Such an expansion along the extensive margin of the number of export destinations results in added inequality in the value of exports, compared to scenarios where each firm has a constant number of trade destinations. Thirdly, if sunk costs were involved when trading specific products, and the products differed in their level of profitability, more productive exporters would tend to export a larger number of products (Hottman *et al.,* 2016). Such an expansion along another extensive margin of the number of products may further increase the inequality in the export values (Arkolakis & Muendle, 2010).

Actual international trade flows are small compared to the levels of trade flow predicted by trade theory (Cernat, 2014). The level of trade predicted in the traditional trade theories by cross-country variations in factor endowments is significantly higher than the actual observed trade values (Trefler, 1995). According to the standard new trade theory models, all product varieties are being traded in

equilibrium. However, this is a prediction that conflicts with the significant amount of zero bilateral trade flows which are observed in either aggregate or product-level trade data (Cernat, 2014). Traditional trade theory may explain this absence of trade flows by means of complete specialisation or prohibitive trade costs. However, such explanations are not very persuasive and do not clarify why, in events of positive trade, some firms export while others do not.

Analyses of firm-level data complicate the puzzle of missing trade opportunities, as the average export share of firm output is considerably lower compared to the amount predicted by the standard new trade theory models. With identical preferences and no trade costs, the new trade models predict that export shares of firm output equal the rest of the world's share in world GDP, which is significantly higher than the ratios found in actual trade (Bernard, Redding *et al*., 2007). Also, the average exporting firms are exporting to a small number of countries. Bernard, Jensen *et al*. (2007) found that, in 2000, 64 per cent of US exporting manufacturing firms export to only one destination country. Still, these firms represent merely 3.3 per cent of the aggregate value of exports in the country. On the other hand, exporting firms with a minimum of five different destination countries represented just 13.7 per cent of the number of exporting firms in 2000, but 92.9 per cent of the export value of the country. Furthermore, Bernard, Jensen *et al.* (2007) established that firms exporting to five or more different destination countries show employment levels that are five times higher compared to firms that export to a single country. In addition, their export values are 30 times higher than single destination exporting firms, and their exports per worker are approximately six times larger.

Bernard, Redding *et al*. (2007) stress the importance of multi-product exporters for a country's exports. Their study on US firms revealed that 42.2 per cent of exporting firms exported only one single product to foreign markets in 2000. Thus, these exporters represented a share in the country's aggregate exports of merely 0.4 per cent. In the same year, US firms who exported a minimum of five products to foreign markets represented 25.9 per cent of the exporting firms, but as much as 98 per cent of the export value. These findings support the explanations for the concentration of trade described above and indicate that the small share of exporting firms that dominate the US export market consist of large firms, as they export several products to a considerable number of destinations. This is confirmed by the positive and statistically significant correlation that was found between the number of destination countries and the number of products exported by the firms in 2000.

Eaton *et al*. (2011) studied firm-level data from 1986, specifically data from French manufacturing firms and their destination markets. Their findings showed that, of the 234 300 French firms included in the study, 17.4 per cent exported. Among these exporting firms, 34.5 per cent exported to only one single trading partner, while 19.7 exported to 10 or more destinations. A mere 1.5 per cent of the firms exported to 50 or more different markets. Eaton *et al*. (2011) also investigated differences in the number of destination countries of French exporting firms. Their aim was to make an estimation of the fixed exporting costs specific to the firms' destination countries, within a structural model of trade and heterogeneous firms. Their findings imply that approximately half of a firm's gross profit is used to cover fixed costs.

Traditional and new trade theories do not consider extensive margins when explaining the participation of firms in the export markets. Still, adjustments along these extensive margins help to explain the differences seen in aggregate trade flows. A firm's decision regarding the number of export destinations and the number of export products correlates systematically with the firm's characteristics. Thus, firm heterogeneity is essential for understanding the outcomes of aggregate trade.

According to past research, export activities are relatively rare, although they occur throughout various industries of manufacturing. These characteristics relate to the new trade theories which emphasise that trade is motivated by consumers' preferences for variety. However, the new trade theories do not clearly state why only a few firms engage in exports while most firms would not. Likewise, exporters' presence in comparative disadvantaged industries is consistent with Helpman and Krugman's (1985) "integrated" traditional and new trade framework. However, this framework does also not clearly explain why only a few firms engage in exporting or why the small number of firms that do export differ with regard to comparative advantage.

Past research has thoroughly examined the behaviour and characteristics of firms, as well as the impact thereof on firm export performance (Bernard, Redding *et al.,* 2007; Díez *et al.,* 2016; Matthee *et al.,* 2018). However, these characteristics differ considerably across exporting firms and firms producing solely for the domestic market. The following section discusses the role of firms in international trade by means of the characteristics of firms engaging in exports.

3.3 Characteristics of export firms

The number of firms that export is relatively small, which makes it a somewhat rare activity for most firms globally (Bernard, Redding *et al.,* 2007; Díez *et al.,* 2016). Among South African manufacturing firms, 75 per cent export 3 per cent or less of their output value, while only 1 per cent export in excess of 70 per cent of their output value (Rankin, 2013). Most of South Africa's exports are exported by a few very large firms, with approximately 1 000 of South Africa's 20 000 exporting firms accounting for 93 per cent of the country's total export volumes (World Bank, 2014a). Similarly, approximately 24 per cent of South African manufacturing firms engage in exports. However, only 10 per cent of South African exporters export more than 50 per cent of their products, and the average exporter exports merely 4 per cent of its total output (Matthee *et al.,* 2018). (See section 4.3 for a description of the characteristics of South Africa's export firms). As stated in section 2.1, only 6 per cent of firms located in the US exported their products in 2019.

Bernard, Jensen *et al*. (2007) used data from the US Census of Manufactures to analyse the distribution of firms in the manufacturing industry across 3-digit Northern American Industry Classification System (NAICS) industries. Their findings showed that the US has a relatively low share of exporting firms in the manufacturing industry, with merely 18 per cent of the firms exporting. Yet, the share of exporting firms within the various categories of the industry shows great variation. Only 8 per cent of firms in apparel manufacturing are exporting, compared to 28 per cent of firms in the computer and electronic products sector. Furthermore, their study found that only a small share of exporting firms' total shipment is being sent abroad. Considerable variations among the different industries also emerged from the research, ranging from 7 per cent in beverage and tobacco products to 21 per cent in computer and electronic products. The total share of all the firms is 14 per cent.

These findings could possibly be explained by the large US domestic market. However, similar results were found in developing countries with considerably smaller markets. Díez *et al*. (2016) found evidence from Colombia corresponding with Bernard, Jensen *et al.*'s *(*2007) findings, namely that exports are responsible for merely 22 per cent of Colombia's total sales on average. The export shares of the country's largest manufacturing industries are 23.6 per cent in food manufacturing, 56.3 per cent in chemical manufacturing, and 58.7 per cent in apparel. In addition, the exports to total revenue mean ratio for firms in the same industries is 27.8 per cent, 17.8 per cent, and 30.7 per cent, respectively. Clearly, a considerable number of Colombian firms do not export, including firms in the country's largest industries. The firms that do export seem to make most of their revenues from selling their products to the domestic market (Díez *et al*., 2016).

The abovementioned findings partly relate to both traditional and new trade theories. For instance, skill-intensive sectors such as computers and electronics are more likely to export and have higher export intensity compared to sectors that are more labour intensive. These characteristics relate to the endowment-driven traditional trade theories, which state that skill-abundant countries are more likely to engage in exports of skill-intensive products where they possess a comparative advantage. However, although the traditional trade theories are able to explain why some countries are net importers in a certain industry and net exporter in another industry, they are not able to explain why some firms engage in exports while others produce solely for the local market, or how a firm's decision to export interacts with its comparative advantage.

Exporting firms differ from non-exporting firms in several ways. Bernard, Jensen *et al.* (2007) emphasised these differences by reporting export premia for US manufacturing exporters for 2002. These premia summarise the average percentage variations between exporting and non-exporting firms for a specific firm characteristic. Their findings revealed that exporting firms have 148 per cent more shipments, 119 per cent higher levels of employment, and 26 per cent more value-added per worker compared to non-exporting firms.

Moreover, exporters and non-exporters even differ within the same industry. Bernard, Jensen *et al*. (2007) established the following: (i) exporters are considerably larger than non-exporters, by 108 per cent for shipments and 97 per cent for employment; (ii) exporters have higher levels of productivity, by 3 per cent for TFP, and approximately 11 per cent for value-added workers; (iii) exporters pay 6 per cent higher wages than non-exporters; and (iv) exporters are roughly 11 per cent more skill intensive and 12 per cent more capital intensive compared to non-exporters.

The abovementioned findings represent the results that are typically found in the literature on exporting firm characteristics. Research indicating that exporters are more productive than non-exporters raises the question of whether firms with high levels of productivity self-select into exporting, or whether exporting itself leads to productivity growth through some sort of "learning by exporting". Nearly all studies conducted across countries and industries confirm the fact that high productivity levels drive a firm towards entering foreign markets. These results suggest the presence of sunk costs in exporting to foreign markets, which only the most productive firms can afford and find profitable ultimately (Roberts & Tybout, 1997).

Most research also finds little or no indication of improved firm productivity as a result of exporting (Bernard & Jensen, 1999a; Clerides *et al.,* 1998). However, more recent studies point to improvements in productivity after engaging in exporting in some low-income countries. For instance, Van Biesebroeck (2005) found improved productivity after engaging in exporting for manufacturing firms located in SSA. While there is limited literature on the improved productivity of firms after engaging in foreign trade, numerous studies indicate that firms entering export markets grow considerably faster with regard to output and employment compared to non-exporting firms (Bernard, Jensen *et al.,* 2006b; Edwards *et al.,* 2008; Hottman *et al.,* 2016). The combination of faster growth and improved initial productivity after entering the export market suggests a central role for trade liberalisation in improving aggregate productivity by means of reallocation across firms.

Whereas most of the current empirical literature on firm behaviour focuses on the differences in size and productivity between exporting and non-exporting firms (see e.g., Edwards *et al.* (2008) and Bezuidenhout *et al.* (2020)), research has also identified market differences in factor intensity between exporters and non-exporters. Thus, the fact that exporters in the US tend to be more skill and capital intensive proposes that the traditional trade theory concept of comparative advantage might be present within industries (Hottman *et al.,* 2016). If a firm's input intensity in production reflects the characteristics of the goods, then more capital- and skill-intensive firms are producing goods that are more consistent with the comparative advantage of the US (Bernard, Jensen *et al.,* 2006b). However, the finding that exporters in developing countries are also more capital and skill intensive, despite being abundant in more unskilled labour, is harder to explain through the comparative advantage concept of the traditional theories of trade (Harrigan & Reshef, 2011). In fact, if firms located in labour-abundant developing countries are specialising in producing goods consistent with the concept of comparative advantage, the firms would be classified as labour intensive and not as capital and skill intensive (Burstein & Vogel, 2010; Verhoogen, 2008). (See section 3.2.3 for a further explanation of comparative advantage.)

Several factors have an impact on a firm's performance in foreign markets and must be considered before a firm decides to engage in exports. Upon entering a foreign market, firms are confronted with numerous barriers to trade that might deter their opportunity of succeeding in the selected target market. Thus, only firms with the required resources can survive in this highly competitive environment. However, firms that are able to compete in foreign markets benefit from a variety of advantages granted from the export venture. The following section examines the determinants of a firm's export performance, its motives for exporting, and the advantages gained when engaging in exports.

3.4 Determinants of firm's export performance

Exporting is a result of a firm's decision to engage in the process of internationalisation. According to Suárez-Ortega (2003), internationalisation can be defined as "the strategic way entrepreneurial firms can achieve growth". Internationalisation is especially beneficial for firms that are restrained by geographic factors or firms experiencing high levels of competition in the domestic and other foreign markets (Lu & Beamish, 2001). By engaging in internationalisation, firms may enhance their financial position due to the ability of exports to increase funds and revenues. These financial benefits can then be used to improve the firm's management skills, stimulate growth and reinvestments, and lead to a more efficient utilisation and allocation of the firm's production capabilities (Arteaga-Ortiz & Fernández-Ortiz, 2010; Leonidou, 2004).

Initially, the process of internationalisation means that firms participate in exporting to foreign markets or participate in Foreign Direct Investments (FDIs). Today, a broader selection of international activities is available, and firms can participate in the internationalisation process through licencing and franchising, establishing foreign subsidiaries or joint ventures, and exporting. Partaking in internationalisation is mostly done through exporting, particularly in the case of smaller firms (Czinkota & Ronkainen, 2002; Mtigwe, 2005; Szabó, 2002). Thus, exporting is recognised as a fast-growing economic activity and is one of the easiest and most widely used ways for small firms to internationalise (Lages *et al.,* 2006; Leonidou *et al*., 2007).

From a macroeconomic perspective, exports improve the economy and welfare of a country because of their significant impact on currency values and fiscal and monetary policies (Czinkota, 2002). Furthermore, exports positively affect a country's employment levels and trade balances, contributing to increased economic growth and fostering higher standards of living (Lee & Habte-Giorgis, 2004). From a microeconomic perspective, exports are important for the growth, survival, and long-term viability of small and medium-sized enterprises (SMEs) (Stoian & Rialp-Criado, 2010). Thus, the survival and growth of firms in foreign markets highly depend on their ability to understand the determinants that impact export performance (Sousa & Martinez-Lopez, 2008).

Several factors are involved in determining whether a firm will succeed in its attempt to engage in exporting. Anil *et al*. (2016) identified four elements as determinants of export performance, namely *external export barriers*, *internal export barriers*, *export motives*, and *exporters' advantages*. These determinants are discussed in the following sections.

3.4.1 Determinants 1 and 2: Internal and external barriers for exporting firms

Although the benefits of internationalisation are many, firms face a myriad of barriers to trade that may obstruct fruitful export activities and hinder them from achieving these benefits (Leonidou, 2004). Suárez-Ortega (2003) defined export barriers as "all those factors – external or internal – that serve to dissuade a firm from exporting, or which hinder its actual export activity". Put differently, barriers to export may appear at different stages in a firm's internationalisation process. Consequently, these barriers could either discourage export at the starting point or serve as a hindrance in the internationalisation process of a firm (Hollensen, 2007).

Export barriers affect firms in various ways, depending on whether the firm is planning to internationalise, how far the firm is in the process of internationalisation, and the size of the firm (Jaeger, 2008; Morgan & Katsikeas, 1997). Exporting firms face many barriers to trade when they start to export their products to foreign markets, and several export barriers have been identified in the literature. These barriers are grouped into different classifications which are explained in table 3.1 and the following paragraphs.

Export barriers are mainly grouped into internal and external barriers (Crick *et al.,* 1998; Leonidou, 1995; Morgan & Katsikeas, 1997; Shoham & Albaum, 1995). Table 3.1 gives an overview of the different export barriers.

Table 3.1: Internal and external barriers to export

Internal barriers	**External barriers**
Lack of skills and insufficient export training	Quotas and tariffs
Need for documentation	Lacking assistance from the domestic government
Inadequate information on foreign markets	Foreign government issues
Poor communication levels with foreign units	Uncertainties in the foreign market
Failure to sustain connections with key stakeholders and foreign contacts	Foreign public attitude
Insufficient financing of export sales	Cultural and language issues
Logistical issues regarding packaging and transportation arrangements	High levels of competition
Challenges in providing services	

Internal barriers	External barrier
Lack of productivity capacity	
Issues regarding international payment methods	
High transportation costs	

Source: Author's own compilation.

Firms' resources, capacity, and capabilities to operate in international markets are classified as internal barriers. These barriers are grouped into marketing, functional, and informal barriers to export (Anil *et al.,* 2016). Internal barriers comprise the availability of information in international markets. Firms might find it challenging to satisfy customers overseas when it comes to arranging before- or after-sales services. Thus, as widely discussed in an extensive range of textbooks on international marketing management, the mechanisms behind exporting are highly complex (see Cateora & Graham, 2001; Czinkota & Ronkainen, 2003; Keegan & Green, 2002; Mathur, 2008).

Irrespective of the significance of external barriers to export, exporting firms are progressively recognising the impact of internal export barriers (Shoham & Zu'bi, 2000). Different types of internal barriers to export may influence a firm's internationalisation process. Some internal barriers involve issues of logistics, while others are concerned with the mechanisms behind export operation management. Shoham and Albaum (1995) identified eight internal barriers, namely insufficient export training, documentation needs, lack of foreign market information, communication with foreign units, insufficient export sales financing, arrangement of packaging and transportation, and providing services.

In addition to the potential of internal barriers to deter firms from engaging in exporting or expanding their operations in foreign markets, external barriers can act as a supplementary constraint on firms' export performance. External barriers are grouped into governmental, environmental, procedural, and task barriers. These barriers are defined as constraints over which the firm has no control, as they arise from environmental factors surrounding the firm (Fillis, 2002), including perceived trade and non-trade barriers such as ISO standards. For instance, a study by Hakan Altintas *et al.* (2007) found that the performance of Turkish exporters was impeded by competition barriers and procedural obstacles (e.g., high tariff and non-tariff barriers and bureaucratic requirements).

Research conducted by Shoham and Albaum (1995) and Shoham and Zu'bi (2000) identified and documented the potential impact of five external barriers, namely quotas and tariffs, insufficient assistance from local government, foreign government attitude, foreign public attitude, and higher than domestic risk (see McWilliams *et al.,* 1992). The impact of external barriers on firms that are in an early stage of the internationalisation process is often more pronounced, because these firms might not be aware of the sources of aid available to deal with political barriers especially (Kotabe & Czinkota, 1992). However, external barriers to export may also impact more experienced exporters as the aid offered by local governments does not necessarily guarantee the successful reduction or removal of external barriers.

Internal and external export barriers are further classified into four groups, depending on their domestic or foreign location (Crick *et al.,* 1998; Leonidou, 1995; Morgan & Katsikeas, 1997). The first group is characterised by internal-domestic issues, which include problems within the firm in the home country such as insufficient capabilities to produce, management that focuses solely on the local market, or a lack of qualified personnel (Rabino, 1980; Yang *et al.,* 1992; Yaprak, 1985). The second group of export barriers is classified as internal-foreign barriers, which also entail internal issues, but they are experienced in the foreign market rather than in the domestic market. These barriers involve a lack of knowledge regarding the foreign markets, as well as problems regarding international payment methods, logistical matters, and high costs of transportation (Barrett & Wilkinson, 1985; Morgan & Katsikeas, 1997).

The third group of export barriers is identified as external-domestic barriers, namely problems arising in the external environment but experienced within the home country. Examples include high costs regarding export activity finance and complications regarding the required documentation (Korth, 1991; Rabino, 1980). The last group is characterised by external-foreign problems, which are issues faced in the foreign markets that the firm is not able to control. These barriers include cultural and language issues, the level of competition in the foreign markets, and the rules and restrictions of international governments (Hook & Czinkota, 1998; Ramaswami & Young, 1990; Westhead *et al.,* 2002).

Morgan and Katsikeas (1997) presented a third classification of export barriers, which also groups barriers into four categories: strategic obstacles, operational and logistical obstacles, information obstacles, and process-based obstacles. Strategic obstacles occur due to limited resources, while inaccuracies regarding distribution, promotion, pricing, and product lead to operational and logistic obstacles. Information obstacles are the result of inadequate knowledge and a lack of information regarding foreign markets. Process-based obstacles occur as a result of failure to sustain

connections with key stakeholders in the distribution channels and export activities (Jaeger, 2008; Westhead *et al.,* 2002).

Ramaswami and Young (1990) classified export barriers into a fourth group where the barriers are divided into procedural, knowledge, internal resources, and exogenous categories. Procedural barriers include problems related to the process of exporting such as logistics or the required documentation – all of which makes export activities more difficult. Knowledge barriers pertain to a lack of information regarding the export activity or inexperience in the field of exporting. Internal resources barriers emerge from a lack of finances, external aid, or productive capacity. Finally, exogenous barriers relate to uncertainties regarding the foreign market, the governments in the importing countries, or the competitors in the foreign markets (Arteaga-Ortiz & Fernández-Ortiz, 2010; Okpara & Koumbiadis, 2011; Suárez-Ortega, 2003).

According to Okpara and Koumbiadis (2011), insufficient capacity to produce, a lack of adequate personnel with experience in exporting, and high labour costs hinder a firm's ability to internationalise. These findings relate to the theoretical framework of the Resource-Based View (RBV) of firms and clarify whether a firm decides to engage in exports or not (Dhanaraj & Beamish, 2003; Westhead *et al.*, 2002). (See section 3.5.3 for an explanation of the RBV concept.) The resources a firm possesses may either help the firm overcome barriers or present challenges in the process of internationalisation (Matthee & Krugell, 2012). According to Wilkinson and Brouthers (2006), firms that possess adequate resources are more likely to engage in export activities compared to firms without resources. A firm's resources are defined as factors that are considered weaknesses or strengths within the firm. These resources can be strategic, giving the firm a competitive advantage over other firms – and therefore be valuable – or it can be rare, non-substitutable, and imperfectly mobile (Dhanaraj & Beamish, 2003).

Dhanaraj and Beamish (2003) list three types of resources, namely technical, entrepreneurial, and managerial or organisational resources. Technical resources refer to both the tangible and intangible assets of a firm. Research and development expenses are utilised to determine the technological intensity required by a firm to gain a competitive advantage, which may promote the firm's expansion into international markets (Dhanaraj & Beamish, 2003; Westhead *et al.*, 2002). Entrepreneurial resources refer to management's drive to promote growth within their firm. Firms or entrepreneurs lacking proper business sense or skills are often unaware of opportunities in the export market, which could hamper a firm's internationalisation process (Crick & Chaudhry, 1997; Morgan *et al.*, 2006; Stoian *et al*., 2011).

Three factors have been identified in the literature to explain how export behaviour is directly connected to the management of firms, namely the significance attached to determining business objectives, managerial perceptions, and management characteristics (Albaum *et al.,* 1994). Rocha *et al.* (2008) stated that perceived barriers to exports can be considered as part of managerial characteristics. Thus, managers of exporting firms play a vital role in influencing the effectiveness of a firm's export activities (Katsikea *et al*., 2007).

Sharkey *et al.* (1989) compared the significance of export barriers among three different company groups: active exporters, marginal exporters, and non-exporters. Their findings indicated that the firm decision-makers' perception of export barriers declines as the firm advances into the process of export development, regardless of the type of export barrier. Shoham and Albaum (1995) documented the perception of Danish managers when it comes to the importance of export barriers, and found that managers' decision-making style, as well as cultural differences, plays a role in predicting the apparent significance of barriers to export. Thus, managers must be aware of and able to deal with the implications of export barriers, as they could potentially slow down or completely stop the internationalisation process of a firm. Managerial or organisation resources are normally proxied by the size of the firm, as smaller firms usually possess fewer resources than larger firms. The smaller firms, therefore, have a harder time battling adverse conditions in their markets. Managers of smaller firms are often more concerned about firm survival and consequently focus less on rapid business growth through internationalisation.

Sullivan and Bauerschmidt (1989) found evidence that small exporters are more significantly influenced by external barriers compared to larger firms. Thus, a strong relationship between exporting and firm size is commonly identified in the literature. This statement also holds for African countries in general, including South Africa (Bigsten *et al.*, 2004; Rankin, 2001, 2005; Söderbom & Teal, 2000, 2003; Van Biesebroeck, 2005). (See section 4.3.1 for an explanation of the connection between South African export firms and size.)

One of the reasons for this strong relationship is the fact that firms are faced with fixed costs when entering an export market. These include the costs of organising export permits and bank accounts, networking to establish the necessary contacts, travelling to meet with potential foreign buyers, and investing to upgrade to the capital equipment required to meet product standards (Edwards *et al.,* 2009). Several theoretical models support this explanation and incorporate the sunk costs related to entering new export markets (see Baldwin, 1988; Baldwin & Krugman, 1989; Dixit, 1989). Firms will enter a market and deal with sunk costs if they believe that potential future profits earned in the foreign market will exceed the profits earned in the domestic market. High entry costs emphasise the

fact that exporting firms should carefully consider the expected future conditions in export markets. However, in the case of large-scale export firms, projected export profits greatly exceed the option value of entering the export market, implying that exit from, and entry into, the export market is limited among these firms (Das *et al*., 2001). In fact, it is the small-scale exporters who make limited contributions to aggregate export revenue that must consider expectations, entry and exit, and sunk costs most carefully.

Consequently, a firm's financial situation may impede optimal internationalisation or export performance, as finance is needed to acquire the newest technology and recruit the right personnel (Jaeger, 2008; Westhead *et al.,* 2002). According to Ozbay and Tasel (2020), firms with a strong financial position are not only more likely to engage in internationalisation, but they also tend to internationalise at a faster rate. Thus, the resources possessed by a firm will determine the firm's export strategy as well as its export performance (Jaeger, 2008; Westhead *et al.,* 2002). Firms engaged in foreign trade and who do not suffer from either internal or external barriers to exporting are defined as resource-rich firms. Low levels of perceived internal or external barriers indicate that an exporting firm has learned to deal with such barriers and managed to develop the necessary resources to address them.

The significance of export barriers has been recognised by researchers for decades (see Bodur, 1986; Hallen & Wiedersheim-Paul, 1989; Johanson & Vahlne, 1990; Karafakioglu, 1986; Karakaya, 1993; McWilliams *et al*., 1992; Shoham *et al.,* 1999). Although firm managers and researchers have thoroughly documented the importance of export barriers, most of the research does not address the link between export barriers and export performance (Shoham *et al.,* 1999). One exception is Shoham and Zu'bi (2000), who stated that almost all the significant relationships revealed in their research (seven out of nine) confirmed the negative impact that these barriers have on export performance. Furthermore, research on firms' export performance has mostly been conducted based on data from developed countries, while there is a dearth of research on developing countries. However, it is crucial for firms in developing countries to improve their export performance, because exporting to international markets may enhance a firm's probability to survive, grow or increase its overall competitiveness (Matanda & Freeman, 2009).

3.4.2 Determinant 3: Export motives

The reason why firms engage in exporting relates to several different motives, including the need to internationalise as a mechanism to distribute risk (Anil *et al*., 2016). Alternatively, firms with idle capacity may want to expand their sale into foreign markets to better utilise their capacity. The motives to internationalise can vary significantly from one firm to another, but in most cases the motives are based on a firm's available resources. For instance, some firms may have excess capacity due to an abundance of resources. This capacity is unique to the firm and not readily available for purchase by other firms in the open market.

Like barriers to export, export motives are divided into internal and external motives, depending on the source of the motive (Shoham *et al*., 1999). For example, firms perceiving exports to be more profitable compared to sales in the domestic market have an internal motive to engage in exporting. On the other hand, firms facing high levels of competition in the domestic market have an external motive for exporting. Motives are further categorised into proactive and reactive motives, depending on whether the firm initiates or reacts to the changes in the markets. Hence, using excess capacity is an example of a reactive motive to export, whereas a "managerial urge" is an example of a proactive motive (Shoham *et al*., 1999).

Export motives have been included as independent constructs in several early studies. According to Bilkey and Tesar (1977), the expected advantages gained from exporting are identified as determinants of the international development of a firm. Similarly, firms tend to differ when it comes to their motives to export, depending on where the firms are in the process of internationalisation (Bilkey & Tesar, 1977; Czinkota, 1982). Lastly, motives for exporting were also applied to predict the significance of information available for firms planning to design an international marketing strategy.

Notably, among the studies mentioned above, none addressed the relationship between the motives to export and export performance. However, to the degree that progression on the path of internationalisation is perceived as a move in the positive direction, these studies in combination indeed propose that the motives to export do push firms forward, which might serve as a proxy for a firm's performance in international markets (Anil *et al*., 2016).

3.4.3 Determinant 4: Exporters' advantages

Engaging in exports holds many advantages for a firm. These advantages often stem from the competencies of the firm, such as its ability to manage risk factors. Alternatively, the firm may expand by applying already earned profits to producing for potential future growth. Each of these advantages may generate a sustainable competitive advantage, which, in turn, could encourage international performance. Axinn (1988) emphasised the need for accurate managerial perceptions in a firm's internationalisation process and claimed that exporting could be regarded as a method of innovation.

Morgan *et al.* (2004) created a nomological model to predict and explain exporting firms' performance. According to their study, the resources and capabilities available for exporting firms affect their strategic choices, which indirectly influence their performance. Their model was designed based on the RBV and the structure-conduct-performance (SCP) paradigm (Barney, 1991; Porter, 1980, 1985). This paradigm suggests that the performance of firms is primarily determined by two sets of fundamental antecedents (Morgan *et al*., 2004). The first antecedent comprises the structural characteristics of the potential export markets of the firms, which determine the competitive intensity the firm is facing. In the context of exports, competitive intensity refers to the extent to which competitors in the export target market are willing and able to respond to the firm's actions regarding the export venture (see Jaworski & Kohli, 1993; Porter, 1980). The second antecedent involves the ability of the firm to reach and sustain a positional advantage by means of effective and efficient execution of its competitive strategy (Porter, 1980, 1985; Scherer & Ross, 1990). Notably, the planning of such strategies depends on managers' perception of the benefits of exports for the firm.

Based on the RBV perspective, Morgan *et al*. (2004) claimed that managers of exporting firms are in possession of capabilities and firm-specific resources that lead to positional benefits in the target market (Barney, 1991; Grant, 1991). Thus, firms sustain a positive advantage which their competitors are incapable of obtaining and deploying similar combinations of capabilities and resources (Dierickx & Cool, 1989).

It is clear from the above discussion that several factors significantly contribute to a firm's probability of success in international markets. However, selecting the right country to export to is one of the most essential factors to consider when planning to engage in international trade. The following section discusses the process of IMS and its importance for a firm's success in foreign markets.

3.5 International market selection

Selecting the right export market is crucial for a firm's international survival and growth. Market selection is particularly important for developing countries like South Africa, where increasing export volumes is part of the government's policies to boost economic growth and employment levels. Thus, IMS is a vital part of a country's internationalisation process and is a task that must be conducted carefully and correctly for the country and its firms to fully benefit from international opportunities.

Researchers have thoroughly investigated the IMS process that firms have followed since the end of the 1950s, and numerous studies have already been published on the topic[12] (Buckley & Ghauri, 1999). The growing interest in the internationalisation process has been fuelled by several factors, including the rise in exports and the increasing number of firms entering foreign markets (Alon, 2004). Regardless of the broad spectrum of research, the literature on IMS strategies lacks consensus on the criteria that firms should use when selecting an export market, or how to weight the various criteria to best reflect their importance (Papadopoulos *et al.*, 2002).

Nevertheless, IMS is commonly conducted by means of a systematic or non-systematic approach. Firms following a systematic IMS approach carefully select potential foreign markets after going through a formal and rational decision-making process during which different selection criteria are applied (Papadopoulos & Denis, 1988). On the other hand, firms following a non-systematic approach adopt a more irrational and incoherent attitude stance when selecting new target markets to include in their export portfolio (Brewer, 2001). Traditional models of IMS promote the use of a systematic and structural approach to market selection (Andersen & Strandskov, 1998). Many studies have found a positive relationship between a systematic IMS approach and the probability of success in foreign markets.

[12] For literature on firm-level export market selection, see Alon, 2004; Andersen and Buvik, 2002; Andersen and Strandskov, 1998; Ayal and Zif, 1978; Brewer, 2001; Cavusgil, 1985; Davidson 1983; Hoffman, 1997; Kumar *et al*., 1994; Rahman, 2003; Ozorhon *et al.*, 2006.

For literature on country-level export market selection, see Arnold and Quelch, 1998; Cavusgil, 1997; Cuyvers *et al.*, 1995; Green and Allaway, 1985; Papadopoulos *et al.*, 2002; Papadopoulos and Denis, 1988; Russow and Okoroafo, 1996; Sakarya *et al*., 2007.

Similarly, extensive literature exists on the topic of market failures experienced by exporting firms in foreign markets (Dalgic & Heijblom, 1996). One of the main reasons for these failures is poor IMS. According to Rahman (2003), erroneous IMS occurs due to inappropriate or inadequate market evaluation, and the consequences are in most cases more costly than the expenses incurred in conducting a systematic market selection that could have prevented such negative outcomes.

According to Reid and Walsh (2003), non-systematic market selection strategies have a negative impact on firms' performance abroad. Brouthers and Nakos (2005) examined 112 Greek SMEs and found that the export performance of firms applying a systematic approach when selecting international markets was significantly better compared to firms applying a non-systematic approach. Similarly, Figueroa *et al*.'s (2014) analysis of the internationalisation strategies of firms revealed a higher rate of success among firms following a systematic approach to market selection.

Nevertheless, past research has found evidence that many firms prefer to use a non-systematic approach to IMS, particularly firms located in developing and emerging markets (Clark *et al*., 2018; Ellis, 2000; Johanson & Vahlne, 2009; Kobrin, 1980 Musso & Francioni, 2014; Papadopoulos & Martín, 2011; Yip *et al.,* 2000). This preference can be attributed to the challenges involved with empirically testing the operational models and frameworks suggested by the current literature on IMS, along with the costs related to applying a more structured IMS strategy (Brouthers & Nakos, 2005).

Firms typically incorporate analytical techniques in their IMS strategies, including market screenings, portfolio analyses, multivariate statistics, and econometric procedures (Malhotra & Papadopoulos, 2007). Seminal research conducted by Papadopoulos and Denis (1988) introduced a thorough examination of analytical techniques applied in IMS. According to their findings, IMS strategies are classified into qualitative and quantitative techniques. Firms selecting foreign markets by following a qualitative approach tend to compose a list of a few markets suitable for further evaluation. This is done by identifying the firm's constraints and objectives for exporting a product to the markets under evaluation. However, according to Papadopoulos and Denis (1988), qualitative approaches to IMS are often inaccurate and largely biased due to their heavy reliance on perceptions.

The quantitative techniques of IMS are further classified into market grouping and market estimation methods. Market grouping techniques entail portfolio analysis, conjoint analysis, and cluster analysis. These techniques assume that a firm's most prosperous and realistic export opportunities are located in markets that closely resemble those markets which the firm is already supplying successfully

(Papadopoulos & Denis, 1988). Thus, a firm greatly benefits from such market similarities because it can standardise its applied marketing strategies to fit several export markets (Sakarya *et al.,* 2007).

The potential markets are commonly grouped based on economic, political, and social similarities (Sakarya *et al.,* 2007). Market grouping techniques rely entirely on country indicators and not product-specific market indicators. These methods are therefore often criticised. As such, macro-indicators might not thoroughly reflect the developments occurring in a potential export market, which may create a new or increasing demand for a specific product (Kumar *et al.,* 1994; Papadopoulos & Denis, 1988; Sakarya *et al.,* 2007).

Market estimation methods entail econometrics and shift-share analysis, multiple criteria methods, and multiple factor analysis (Papadopoulos & Denis, 1988). These models evaluate potential markets based on aggregate market attractiveness and market potential criteria (Papadopoulos & Denis, 1988; Sakarya *et al.,* 2007). The criteria differ depending on the methods applied, but generally include indicators evaluating market access, size, growth, wealth, and level of competition (Sakarya *et al.,* 2007). According to Papadopoulos and Denis (1988), market estimation methods have several deficiencies, including the hypothesis of static environments, the lack of product specificity, and methodological issues as a result of the limited availability of data.

Regardless of the IMS method used, firms stand a better chance in selecting the right export market for their products if indicators relating to circumstances in the export market (country-level indicators) and within the firms themselves (firm-level indicators) are considered before a target market is selected. The following sections further define the term “IMS” before explaining the various indicators commonly applied by firms in their IMS process.

3.5.1 International market selection defined

The amount of literature on the topic of IMS has grown considerably over the past decades and comprises studies from numerous theories and perspectives of various research fields. Unsurprisingly, many researchers hold different views on what should be incorporated into the definition of IMS. Therefore, various aspects must be clarified to ensure a common understanding of the IMS concept before proceeding to the analysis of firm-level IMS strategies.

One aspect entails the definition of “international market”. An international market can either refer to the segmentation of markets involving countries or to homogeneous transnational groups of customers (Swoboda *et al.*, 2007). The study at hand, similar to most research on IMS, applied the first approach and thus defined international markets as country markets. The second aspect relates

to the “market selection” process, defined as “a decision process which involves narrowing down from a considered set of markets for entry” (Reid, 1981). However, this definition does not clearly specify the size of the “considered set” of markets at the start and end of the process of market selection.

The literature presents diverse understandings of where the market selection process starts and ends. However, in most research, the market selection process starts by considering all country markets worldwide, then subtracting the countries to which the firm is already exporting its products. The process ends when one or several countries are identified as having potential export opportunities. Research has shown that firms starting their selection process with a full set of potential country markets grow their exports considerably faster compared to firms that only consider a reduced set of target markets, or none at all (Cooper & Kleinschmidt, 1985). One explanation of this might be that potential export markets could be overlooked if not all country markets are considered in the selection process (Root, 1994).

The following sections discuss country-level indicators for IMS, namely market potential, institutional environment, cultural distance, geographic proximity, political stability, competitive strength of the industry, and client receptiveness.

3.5.2 Country-level indicators for international market selection

As explained in the previous section, selecting the right country to export to is important for firms surging towards internationalisation and expanding their business to include global markets. This selection depends on determining the markets in which the firm’s export activity will be the most valuable. Export efficiency and the development of successful relations in international markets are determined by carefully selected export markets (Miečinskienė *et al.,* 2013).

Several factors must be taken into account before a firm decides on the most prosperous and realistic export market for its products. All the variables that are not dependent on the firm, but connected to the foreign business environment, are defined as market-based factors. In IMS, these are factors related to circumstances in the target markets (Buerki *et al.,* 2014). Market-based factors are important criteria for the selection of foreign target markets as well as determinants for a firm’s success in the export market. These factors relate to the Market-Based View (MBV) of strategy, which emphasises the importance of market-related factors for determining the competitive advantage of firms. The MBV’s fundamental principle is that market-related factors serve as determinants for a firm’s success in foreign markets (Buerki *et al.,* 2014). Thus, in the case of IMS, a firm must look solely at the characteristics of the foreign markets when deciding on the most

appropriate target country. Contrary to the MBV, the RBV emphasises the fact that firm-specific factors may also be important when selecting markets.

Research conducted before 1990 primarily emphasised environmental variables, such as opportunities and threats, as foundations for competitive advantages. Porter's (1980) Five Forces model is one of the most recognised frameworks for analysing the competitive environment of a firm. The model describes the characteristics of an attractive industry and proposes that such industries will promote the best opportunities. However, one fundamental notion of the MBV predates this model by several decades. Wallace (1936) first introduced "barriers to free entry" to the literature through his research in the 1930s. Furthermore, Bain (1956) was the first to thoroughly examine barriers to entry. In his book, he defined the concept "as anything that allows incumbents to earn above-normal profits without inducing entry" (Bain,1956:3).

In the IMS framework, barriers to entry reduce access to the potential foreign country markets, and they are represented in various forms. Entry barriers may be easily visible as tariffs, or they may be less evident in their impact on trade, as is the case with the cultural distance between the target market and home country. Thus, barriers to entering foreign markets have been identified as "the most important export deterrents" in the literature on export market selection (Papadopoulos *et al.*, 2002). The following sections discuss the most common country-level indicators considered by firms when evaluating potential markets for their future export expansions.

3.5.2.1 Market potential

Market potential is one of the most important market-related variables and has been identified in past research as an essential factor that highly influences a firm's entry strategy for foreign markets (Malhotra & Sivakumar, 2011). In IMS, the one-stage and the multi-stage models both recommend applying different market-related variables. Market potential indicators have been used to select markets both in normative models and in practice. Davidson (1980) studied the sequence of foreign markets entered by US multi-national firms and found a positive correlation between the country's position in the sequence and the country's per capita income. In December 2004, McKinsey Global Survey of Business Executives conducted a poll to analyse the IMS procedures of 9 750 senior managers of firms from countries worldwide and found that 61 per cent of the respondent identified market size and growth as important determinants when deciding on new markets to enter. A similar study, by Robertson and Wood (2001), showed that, among experienced exporters located in the US, information on the market potential of countries is considered to be one of the most important factors when choosing a foreign market. Ellis' (2008) research on Chinese firms further emphasises

the positive relationship between market size and foreign market entry. Similarly, Rahman (2003) found evidence that Australian firms frequently apply macroeconomic variables when evaluating the attractiveness of potential foreign markets.

Although researchers seem to agree upon the importance of market potential as a criterion for foreign market selection, it is not clear which indicators firms should use to measure the potential of a market. According to Khanna *et al.* (2005), the actual factors that are applied to evaluate the market potential of a country is GDP, population growth and composition, purchasing power parity, exchange rates, and the growth rate of per capita income. In contrast, Wood and Robertson (2000) found evidence that managers regarded product-specific market potential information as more valuable than macroeconomic indicators. Douglas *et al.* (1982) further defined market potential as the sum of different variables from geographic and socio-cultural factors.

It is evident from the literature that a variety of macroeconomic indicators are frequently used when evaluating a country's market potential. However, Arnold and Quelch (1998) emphasised that these variables commonly understate the actual macroeconomic figures of a country due to the relatively large grey economy which is often an important aspect, especially for developing countries and emerging markets.

3.5.2.2 Institutional environment

Institutional theory is a central element to consider when selecting a foreign market to enter. Institutional factors are especially important when the target country is a developing or emerging market, as government exerts a high degree of influence and control over these markets (Hoskisson *et al.,* 2000). Thus, regulatory bodies and national governments are significantly more influential in developing countries compared to developed countries, usually as a result of important infrastructure projects led by governments and the countries' past as closed economies (Arnold & Quelch, 1998).

A country's institutional environment may present several entry barriers for firms attempting to enter the market. These barriers are created by government interventions or a lack thereof. Past research has found that government institutions directly impact the strategies of firms and generate competitive advantage, especially in emerging markets (Meyer *et al.*, 2009). According to Khanna *et al.* (2005), institutional voids are one of the core issues that firms are confronted with when exporting to emerging markets, due to inadequate "soft infrastructure" which serve as an obstacle for international expansion. Furthermore, Tybout (2000) emphasised the significance of the regulatory barrier in developing countries, which makes entry into such markets noticeably more troublesome compared to entering markets in more developed countries. However, although exporting to

emerging markets is more challenging due to institutional voids, it may be considerably more successful if the entering firms understand and take into consideration these institutional differences (Khanna *et al.*, 2005).

Thus, it is essential that firms consider a market's institution (or the lack thereof) when selecting the most suitable foreign markets to enter. A market's institutional environment comprises several factors with various degrees of importance. In their research, Khanna *et al.* (2005) recognised five contexts which could be used to classify a country's institutional environment and identify institutional voids, namely (i) political and social systems; (ii) openness; (iii) labour markets; (iv) capital markets; and (v) product markets.

According to Robertson and Wood (2001), experienced managers of exporting firms assign the highest value to information regarding the legal institutions of markets, referring to several "soft" factors like imposed product standards, the participation of foreign government in patent protection and trade, and import procedures. Tariff barriers are particularly important restrictions to consider when entering a new export market, and the expenses related to these tariffs appear to be an essential factor that managers analyse when assessing foreign market opportunities (Rahman, 2003; Wood & Goolsby, 1987).

The large diversity of factors present in the institutional environment of countries makes it challenging for firms to compare and evaluate the institutional attractiveness of potential target markets. With the aim to quantify specific aspects of countries' institutions, numerous indices have been developed over the past years such as the World Economic Forum's (WEF, 2020) Global Competitiveness Index, the World Bank's (2019a) Ease of Doing Business ranking, and Transparency International's (2018) Corruption Perception Index. However, Khanna *et al.* (2005) advise against the use of such indices, as they may create a false notion that countries with considerably different issues are easily comparable.

3.5.2.3 Cultural distance

Cultural distance is arguably one of the most debated factors in the IMS literature. It was first proposed as a key criterion for firms seeking to expand into international markets in Johanson and Wiedersheim-Paul's (1975) conceptualisation of a firm's internationalisation process, better known as the Nordic model. The model originated from a case study on Swedish firms. Its main idea is that firms initiate their expansion into foreign markets by first targeting markets that are relatively familiar and well-known in terms of culture, language, education, business practices, and the like (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977).

Researchers have since investigated the relationship between IMS and cultural factors, although the specific role that these factors play has yet to be defined. The variables guiding a firm's internationalisation process, consistent with the Nordic model, were initially defined as the psychic distance between two markets, based on a theory proposed by Beckerman (1956). Recent literature continues to refer to cultural distance as well as psychic distance. However, Sousa and Bradley (2006; 2008) observed that both ideas are applied in research interchangeably and that IMS literature commonly fails to distinguish between the two. Thus, most researchers agree that the concepts represent the same idea, namely differences between two markets, which could, in a broader sense, be referred to as culture.

Cultural distance is important in IMS, as firms usually encounter less psychological barriers when exporting to countries with similar cultures (Alexander *et al.*, 2007). O'Farrell and Wood (1994) argued that it would be easier to relocate employees to culturally similar markets, and firms could hire less new personnel. Cultural differences could be particularly challenging for firms in the service industry, as service providers rely on positive interactions between the supplier and their clients, which potentially could be deterred due to these differences (O'Farrell & Wood, 1994). Davidson (1980) studied multi-nationals in the US and observed a strong preference for entry into markets that were culturally similar to the firm's domestic market, even when there was no justifiable economic reasoning for this preference. In addition, Papadopoulos and Denis (1988) showed that, in practice, a vast majority of firms base their IMS decisions on criteria like cultural and psychic distance. However, the research on IMS has produced mixed results, and researchers have not yet fully confirmed the significance of cultural distance.

According to Clark and Pugh (2001), cultural factors have an influence on a firm's internationalisation process, although their research could not determine a correlation between the chronological order of international market entry and cultural distance. Brewer (2001) conducted a case study on Australian firms and found that approximately 50 per cent of the firms under investigation first exported to countries that were culturally significantly different. He concluded that these specific cases might even show a negative relationship between the order of entry and cultural distance. Wood and Robertson's (2000) study found that managers of exporting firms perceived cultural information on potential export markets to be the least vital factor among six various dimensions of a country's market information. However, they argued that these results do not indicate that culture is not important, but merely that information on culture becomes essential only after all potential questions regarding the other dimensions have been answered positively.

Apart from the significance of cultural distance, researchers and managers of exporting firms are also concerned about how cultural distance can be measured. The large variety of aspects encompassing the idea of culture makes it difficult to compare different cultures across markets, not to mention measuring these differences. A single indicator for quantifying cultural distance has been frequently applied in research, namely Hofstede's (1980) cultural dimensions, which provide a quantitative measurement consisting of four dimensions of cultural facets for most countries in the world. At a later stage, Kogut and Singh (1998) developed an index that merged the different values of Hofstede's (1980) dimensions into one singular figure. Malhotra and Sivakumar (2011) combined a country's market potential with cultural distance into one equation, in an attempt to determine a market's attractiveness for potential firm investments.

3.5.2.4 Geographic proximity

The geographic distance between countries has been mentioned in the literature as a crucial factor to consider for firms wanting to expand their business into new markets. This factor is important mainly because of the high transaction costs associated with handling a foreign subsidiary. These transaction costs are diminished by geographic proximity between the trading partners, which indicates a positive relationship between the probability of firm entry into the market and the proximity of the two countries (O'Farrell & Wood, 1994).

The IMS model of Papadopoulos *et al.* (2002) also includes geographic distance, based on their view that the distance between two markets is a type of trade barrier. Research has found evidence on the importance of geographic distance in firms' selection of international markets. Studies conducted on British firms concluded that geographic proximity between the target market and the exporting country played a significant role in a firm's internationalisation process (Clark & Pugh, 2001). Likewise, Myers and Alexander (1996) established that retailers tend to select markets located near their home country.

However, according to Terpstra and Yu (1988), geographic distance is highly relevant at the start of a firm's internationalisation process but is seen to have decreasing importance over time. Geographic proximity merely increases the probability that countries share a similar culture. The positive relationship between cultural and geographic distance may be the actual reason why researchers have found evidence on the significance of geographic proximity for firms' IMS (O'Farrell & Wood, 1994).

3.5.2.5 Political stability

Political stability is seen as a highly relevant factor when it comes to IMS and is related to a country's institutional environment, but with a higher focus on the security and risk aspects. Root (1987) found political instability to be a type of risk that has a considerably large impact on a firm's decision to enter a foreign market. One of the reasons why this variable is considered so important for IMS is that instability has a severely negative effect on market growth (Mody, 2004). According to Harrell and Kiefer (1993), analysing the political stability of potential markets is seen as crucial in the IMS process of firms seeking to expand internationally. Similarly, Robertson and Wood (2001) found that managers who have to decide on a foreign target market viewed data on political stability as highly important in the selection process, although of less relevance than factors like the legal environment and market potential.

3.5.2.6 Competitive strength of the industry

Another selection criterion for firms wanting to expand into foreign markets is the relevant industry's competitive strength in the target market under investigation. This criterion is based on Porter's (1990) idea of nations' comparative advantage, which assumes that particular configurations of features may lead to a comparative advantage for some industries in a market. Sakarya *et al.* (2007) stated that such competitive strength in certain industries within a market is especially important for emerging markets. They suggested through their IMS model that this variable should be included in the firm's process of foreign market selection. Johanson (1997) concurs by arguing that information on an industry's competitive strength and competition in a market should be part of the criteria of normative selection models.

3.5.2.7 Client receptiveness

Client receptiveness is used to measure the receptivity of a market when it comes to foreign businesses and products. Sakarya *et al.* (2007) found that consumers' attitude towards foreign business and the origin country, as well as their perception of foreign products, are relevant factors to consider when evaluating potential foreign target markets. In his multi-stage model on market selection, Johanson (1997) suggested incorporating a criterion that evaluates the match between the existing product or service and customer preferences. Similarly, Cavusgil (1997) proposed to incorporate a market receptivity measure in his model, which was designed to evaluate the attractiveness of emerging markets.

3.5.3 Firm-level indicators for international market selection

Whereas the previous section explained variables related to the market, the following section investigates selection criteria that are firm related. The notion that firm-based factors are the main criteria for success relates to the RBV, which emphasises that the foundation of the competitive advantage of a firm lies in the resources of the firm itself (Buerki *et al.,* 2014). In the past years, the concept of RBV has developed to become increasingly more influential in research related to international business (Peng, 2001). The focus of current research has shifted towards firms' capabilities and resources, especially in the field of market entry strategies (Meyer *et al.*, 2009). In addition, the RBV has been identified as one of the most essential research topics regarding emerging markets (Hoskisson *et al*., 2000).

The fundamental theory of the RBV was designed mainly by Barney (1991), who suggested that sustainable competitive advantage correlates with rare, valuable, non-substitutable and non-imitable resources. In contrast to the MBV (see section 3.5.2), the RBV is based on the hypothesis that firms might be heterogeneous within an industry with regard to the resources that the firm controls and that such heterogeneity may potentially be long term (Barney, 1991).

Another developer of the RBV theory, Wernerfelt (1984), proposed a comparison between the entry barriers fundamental in the market view and the "resource position barriers", which focus on the resources of firms. With regard to the process of IMS, the RBV shifts the perspective from viewing market entry as a single, isolated transaction to considering it as a dynamic procedure of market entries closely tied to a firm's resource endowment and strategic position (Peng, 2001). However, this theory requires that the foreign market selection matches the specific capabilities and resources of firms to ensure that they achieve the highest possible gains from entering the new market (Brouthers, Mukhopadhyay *et al.*, 2009). Thus, firm-specific market selection criteria are essential for maximum economic growth and development. The following sections discuss the various factors serving as potential selection criteria.

3.5.3.1 Social capital

Social capital is regarded as a critical resource in market selection. It is considered an intangible resource because it develops through a firm's networks, ties, and contracts with the management of other firms and government officials. It affords a firm considerable advantages such as awareness of potential export opportunities that can influence its market selection strategy (Ellis, 2000; Peng, 2001).

According to Hoskisson *et al.* (2000), well-established relationships with governments are valuable in gaining a competitive advantage and often result in tangible benefits, especially for emerging markets. In fact, good relationships between firms and governments can even make up for poor institutional infrastructure (Hoskisson *et al.,* 2000). Thus, some firms choose to enter emerging markets due to managers' personal experiences or employees' ties to the countries in question (Khanna *et al.*, 2005). Chetty and Blankenburg Holm (2000) argued that firms tend to develop foreign business agreements through relations between the firm's managers and several other related individuals. Lastly, Ellis (2000) found that manufacturing firms frequently gather information about potential foreign market opportunities through interpersonal links, and not by systematically doing market research.

3.5.3.2 Market orientation

Market orientation is another factor important for a firm's market selection process, according to the RBV perspective (He & Wei, 2011). The market orientation concept describes a firm's capabilities and resources to systematically respond to, and generate knowledge about, competitors and customers, as well as deviations in the business environment (He & Wei, 2011).

Zhou *et al.* (2008) investigated the Chinese market and concluded that a firm's market orientation is linked with the performance of emerging markets, emphasising the importance of this factor in IMS. Furthermore, He and Wei (2011) conducted research on Chinese exporting firms and found a link between IMS, market orientation, and cultural distance, as market-oriented firms seemed to select markets that were culturally distant to further develop their market orientation abilities.

It thus seems that firms with the ability to optimise the balance between the combination of firm-based and resource-based factors tend to have better foreign market performance compared to firms lacking such a balance.

3.5.3.3 Experience

Early internationalisation models view a firm's experience in entering foreign markets and the subsequent knowledge it acquires as a firm-related resource. In the Nordic model, the experience factor is linked with cultural distance and the process of IMS, suggesting that firms with a higher level of experience tend to choose to enter foreign markets that are more culturally different than their home country (Johanson & Vahlne, 1977). According to O'Farrell and Wood (1994), cultural distance becomes a less important criterion of IMS when firms increase their experiences in doing business in foreign markets. Thus, experience has a significant indirect effect on the IMS process.

Herrmann and Datta (2006) emphasised that the significance of experience from international markets comes from a firm's growing ability to tackle uncertainties related to international operations. Zhang *et al.* (2007) reached similar findings and added that a reduction in uncertainties might result in a firm becoming more confident in its abilities to conduct business in foreign markets. The findings of Zhang *et al.* (2007), together with concepts related to the inverted relationship between cultural distance and international experience, are particularly relevant for firms in emerging markets. However, Hoskisson *et al*. (2000) argued that a firm's ability to apply and acquire experience is not yet fully understood and needs to be studied further.

3.5.3.4 Financial resources

The availability of financial resources is another factor that relates directly to firms and may influence market selection. Financial resources are often scarce in emerging markets; therefore, a firm planning to enter such countries should ensure that it has sufficient own financial resources (Filatotchev *et al.*, 1996). The literature has defined this factor as either market related (the accessibility of funds in the markets in question) or firm related (the financial resources of the firm), depending on the authors' perspectives. According to Estrin and Prevezer (2010), a lack of capital is a potential trade barrier in the institutional environment, as capital requirements are not linked with overdraft facilities, bank loans, and the availability of capital market access. Consequently, financial resources play a crucial role in market selection strategies, either as available resources that the firm already possesses or as entry barriers that may require a firm to accumulate added resources before a potential new market is entered.

From the above discussion, it is evident that selecting the right export market is essential for a firm's success in international markets. This is particularly important for South Africa, where an increase in exports is essential for further economic growth and development in the country. Most of the current research on IMS focuses on developed countries. The aim of this study was to add to the limited literature on IMS for emerging markets by examining how South African firms approach IMS and their strategies when selecting the most profitable markets for their products.

3.6 Summary and concluding remarks

To increase South Africa's export levels, it is essential to understand the factors causing the missed export opportunities. Analysing how export firms operate and how they select new export markets for their products can aid in this process. Chapter 3, therefore, provided an overview of the available literature on firm-level international trade theory and market selection to create a foundation to better understand the export behaviour of South African firms.

Past research on the role of firms in facilitating exports indicates that firms participating in foreign trade differ from firms that merely operate in the domestic market. According to the literature, exporters are larger, more productive, more capital intensive, have higher shares of skilled labourers, and pay higher wages than non-exporters. Exporting firms also tend to have a productivity advantage, which suggests self-selection into exporting. Traditional trade theories typically explain trade flows between countries. The most well-known is the concept of comparative advantage, which explains a country's ability to produce a product at a lower opportunity cost than its competitors.

As traditional and new trade theories started to face empirical challenges, broader theoretical trade models emerged, highlighting the inclusion of firm heterogeneity as a means to encourage aggregate productivity growth and increase international trade levels. In addition, empirical evidence indicates that international trade is highly concentrated across firms. According to heterogeneous-firm trade theory, the high levels of concentration may be explained according to various scenarios. Firstly, concentration can be attributed to the unequal distribution of productivity across firms, resulting in unequal distribution of trade. Secondly, the high concentration levels may be due to high levels of elasticity of substitution between the product varieties of firms. Marginal price differences and firm productivity may impact the sales levels of certain products, as high-price varieties of the product can easily substitute low-price varieties of the same product.

Exports are the result of a firm's decision to engage in the internationalisation process. Internationalisation is highly beneficial for firms that are limited by geographic factors or faced with strong competition in domestic or other foreign markets. Firms engaging in internationalisation can improve their financial position based on the potential of exports to increase revenues and funds. Such increases encourage reinvestments and growth, allow for improvements in the allocation of a firm's production capabilities, and strengthen the skill levels of the firm's management.

Many factors affect a firm's performance in a foreign market. Export performance determinants are commonly classified into internal and external export barriers, export motives, and exporters' advantages. Internal barriers involve the availability of international market information and a firm's resources, capabilities, and capacity to operate in foreign markets. External barriers can serve as additional constraints on a firm's export performance and are classified into governmental, environmental, procedural, and task barriers. Firms do not have any control over these barriers, as they are a result of environmental factors surrounding the firms, like perceived trade and non-trade barriers.

The advantages for firms that decide to engage in exports are many. Exporters' advantages are based on a firm's competencies, such as its ability to deal with risk. A firm can also expand from using already earned profits to producing further growth potential. Such advantages could result in a sustainable competitive advantage, which promotes international performance.

It is crucial for firms to select the right market if they are to survive and succeed in international markets. Because the South African government encourages increased exports to stimulate economic growth and development, IMS is essential for South Africa's internationalisation process. IMS methods are commonly divided into qualitative or quantitative techniques. Furthermore, IMS is broadly divided into country-level and firm-level indicators. Country-level indicators for IMS include market potential, institutional environment, cultural distance, geographic proximity, political stability, competitive strength of the industry, and client receptiveness. Firm-level indicators include social capital, market orientation, experience, and financial resources.

To conclude, it is crucial that firms select the right export market when expanding their business into international markets. Selecting an export market in which a firm's products and export activities are regarded the most profitable enhances the possibility of firm survival and growth. On the other hand, selecting the wrong export market may have severe economic consequences, even forcing a firm to exit the market. The South African government promotes export activities as a means to stimulate economic growth and development and increase employment levels.

As a country's aggregate exports are the total of all firm-level exports, it is essential to understand how exporting firms operate. According to heterogeneous-firm research, only the most productive firms engage in exports. This results in an overall increase in productivity as market shares are reallocated to include a greater number of firms with high productivity levels. Furthermore, countries with higher exposure to international trade tend to have additional welfare gains compared to countries with less exposure. The empirical findings of research focusing on the export behaviour of heterogeneous firms can aid South African policymakers to better comprehend the implications and causes of international trade. This can provide critical information to optimise strategies for improving export-led growth and development in the country.

Chapter 4 provides a review of the literature on the characteristics of South African export firms, the barriers faced by the firms when engaging in exports, and the IMS strategies applied by exporters when selecting the most suitable markets for their products.

CHAPTER 4: LITERATURE REVIEW ON THE BEHAVIOUR OF SOUTH AFRICAN EXPORT FIRMS

4.1 Introduction and background

Exporting is widely recognised as a means to overcome the increasing levels of competition globally (Czinkota, 2002; DTI, 2011; DTIC, 2021; Dana *et al*., 1999). To satisfy their need for further growth, large firms must engage in exports when domestic markets become saturated (Adendorff, 2010; UN, 2012). In addition to the traditional arguments of promoting exports to increase economies of scale, firms also gain valuable insight into competitors and customer attributes which may, in turn, improve the overall competitiveness of firms (Van Eldik & Viviers, 2005). Exporting firms tend to be more sustainable than non-exporters and have a higher probability of survival and further growth (Trung *et al.,* 2008). The literature review in chapter 3 showed that an increase in a firm's export ratio results in an improvement in the firm's competitive advantage, as competitiveness develops through a transfer of knowledge acquired in foreign markets (Brouthers, Nakos *et al.*, 2009).

In the South African case, the majority of exporting firms are still mainly resource based, with a low level of manufactured exports. The country's manufactured exports, accounting for 37 per cent of total merchandise export in 2022, are significantly below the world average of 70 per cent, although the ratio had shown relative improvement, from 43.2 per cent in 1994 to 62.23 per cent in 2002 (World Bank, 2023). However, the ratio dropped to 45.87 per cent in 2008 and has continued to stay considerably low. Compared to the other BRICS members, South Africa's 2022 ratio is considerably below China (93 per cent) and India (62 per cent), but above Brazil (25 per cent) and the Russian Federation (21 per cent) (World Bank, 2023).

The South African economy could greatly benefit by increasing its levels of manufactured goods and improving export growth. Any modern economy should focus on stimulating its export levels of manufactured products (UN, 2012). Unfortunately, South Africa continues to stay behind global trends in this regard. Failing to deal with this issue could result in a systematic deterioration of the competitive position of the country's manufacturing firms (Van der Walt, 2007).

For the past few years, the South African government has been focusing on increasing and diversifying the country's exports (DTIC, 2021; Viviers, Cuyvers, Steenkamp *et al.,* 2014). Since the 1990s, the growth levels of South Africa's exports have been mediocre compared to similar economies (Edwards & Alves, 2006; Hausmann, 2008). The country's import growth levels have also been middling, resulting in a current account deficit surpassing 7 per cent of GDP in 2007, while

recovering to 3.5 per cent in 2019 (South African Reserve Bank, 2019). Nevertheless, logistical issues and lower commodity prices resulted in a current account deficit of 0.5 per cent in 2022 (South African Reserve Bank, 2023).

Low export growth rates and current account deficits are likely to serve as barriers to further economic growth in the country (Fowkes *et al.,* 2016). For South Africa to reach its 6 per cent export growth target, exports need to increase considerably (Hausmann, 2008). Thus, export growth stimulation and policies to diversify the country's exports remain key priorities of the government. According to the National Industrial Policy Framework (NIPF), improving South Africa's performance of non-traditional exports, especially in value-added goods, is an essential industrial policy objective. Also, to boost exports, increase employment levels, and combat current account deficits, export barriers and constraints must be considered (DTI, 2007). Thus, the relevant policies extend past standard concerns about the country's real exchange rate levels. Trade incentives and policies, infrastructure development and microlevel policies addressed in the framework of the new industrial policy layout must therefore be applied for the country to reach its export growth objectives (Matthee & Krugell, 2012).

Several benefits are associated with exports as a creator of economic growth. These include economies of scale, more efficient allocation of resources, positive spillovers, and increased foreign exchange earnings (Foster, 2006). As a result, exports are generally included in government policies as a means to stimulate economic growth in a country (Edwards *et al*., 2008). In South Africa, one of the key policy objectives of the NPC is to increase the country's exports. The dynamics of exports and the exporting process are more nuanced than what is commonly recognised, even in policy documents like the National Development Plan (NDP) (NPC, 2013). Aneconomic growth and development strategy was introduced by the South African government in 2010, namely the New Growth Path (NGP), with the aim to elevate the country's economic growth to 7 per cent annually over a 20-year period (South African Government, 2010). The purpose of the NGP is to eliminate the tenacious unemployment levels in the country by growing its markets through increased exports to the Southern African region as well as other fast-growing countries (South African Government, 2010).

Chapter 4 provides a literature review of the research conducted on South African exports at the firm level, to meet the research objectives of this study (see section 1.4). Section 4.2 gives an overview of the main export markets and dynamics of South African exporters. Section 4.3 discusses the characteristics of South African exporters, including firm size, productivity, output levels, and employment and wage premiums. The barriers faced by South African export firms are discussed in section 4.4. Section 4.5 highlights the importance of IMS strategies for South Africa's exporting firms and reviews the available literature on the topic. Section 4.6 summarises and concludes the chapter.

4.2 Export markets and dynamics of South African firms

South African firms have mainly focused on the export of raw materials and primary goods (ITC, 2024). The main export destinations over the last decade are in Western Europe, Northern America, Southern Africa and Asia (ITC, 2024). The market entry for South African firms into Western Europe and Northern America is distinctly different from Southern Africa due to the characteristics of these markets. The empirical findings of Rankin (2013) show that firms exporting to either Western Europe or North America are also more likely to export to the other. According to Rankin (2013), firms that export to these markets have a higher probability of being specialists in exporting and are, therefore, capable of exporting a larger share of their output. These firms tend to produce products of higher quality, be more productive, and pay higher wages than firms producing to sell to the domestic market only. Similarly, these firms are more technically advanced and relatively more sophisticated because they are operating in highly competitive markets. But, owing to their level of sophistication and high wage levels, such firms are most likely not able to generate the significant amount of unskilled job opportunities required to aid in the reduction of South African high unemployment levels (World Bank, 2014a). (See section 4.3.4 for a further explanation of employment and wage premiums of South Africa's export firms.)

Research shows, however, that South African firms' export participation in Southern African markets is negatively correlated with exports to North America and Western Europe (Rankin, 2013). Firms that export to African markets generally produce less sophisticated products, pay lower wages, and do not seem to have higher productivity levels than domestic producers. In contrast, they are more capital intensive compared to firms that sell their products solely to domestic markets (Rankin & Schöer, 2013). Also, these firms export a small share of their total output. Thus, the African market serves as an expansion path for firms currently producing only for the domestic market. This is because South African firms share more comparable characteristics and similar products with other African firms than with firms in the American and European markets (Rankin, 2013).

Rankin (2013) points out three challenges for South African firms when targeting Southern African Development Community (SADC) countries as potential markets. Firstly, the size of the markets is relatively limited within the region, and the administrative costs of entering several different countries, all with their own set of specific requirements, are high. Secondly, when exporting to the SADC region, South African exporting firms will most likely face direct competition from other countries such as China. Although South African firms may succeed in their regional markets, it is doubtful whether this experience could be utilised as a stepping-stone to the more sophisticated American and European markets. These markets' characteristics, and the firms serving them, vary too much to make such a transition possible (Rankin, 2013). Low levels of correlation are also seen between these distinct markets and other possible export destinations in Asia, Oceania, and Latin America. These findings suggest that different markets are all distinct, and penetrating each new market could be as challenging as when first engaging in exporting. Thus, market expansion is considerably easier within regions than between regions (Edwards *et al.,* 2008).

The third and last challenge pointed out by Rankin (2013) is that any potential expansion into the SADC region should consider local sentiments and circumstances, as some of the region's constituencies already view the expansion of South African firms as neo-colonialism. As suggested by Rankin (2013), South Africa must approach negotiations regarding regional expansion without arrogance, and the concessions by the region's countries must be balanced by concessions from South Africa.

In 2022, South Africa's main export markets were China, the US, Germany, Japan and the UK and [13] (ITC, 2024). In the same year, South Africa exported a total of USD 123.61 billion worth of products. The country's top five export products by value were platinum (USD 16.75 billion), Gold (USD 5.28 billion), Diamonds (USD 2.66 billion), Coin (USD 1.58 billion), Waste and scrap of percious metal (USD 350 million) (ITC, 2024). An export growth (in value terms) of 9 per cent was seen between 2018 and 2022; however, the growth in export were equal to zero between 2021 and 2020 (ITC, 2024). The COVID-19 pandemic could be a probable cause of this decline in export.

[13] South Africa's main competitors for each of the top five export products are the following: (i) HS 7110 Platinum: the US, the UK, Russian Federation, Germany, and Belgium; (ii) HS 7108 Gold: Switzerland, the UK, the US, United Arab Emirates and Hong Kong China; (iii) HS 7102 Diamonds: India, United Arab Emirates, the US, Hong Kong China and Belgium(iv) HS 7118 Coin: Australia, Canada, Germany, the US and Switzerland; (v) HS 7112 Waste and scrap of precious metal: The US, Germany, the UK, Hong Kong China and Canada.

One of the main objectives of the South African government is to increase exports (DTIC, 2021). To succeed, it is essential that policymakers understand the behaviour and characteristics of the country's export firms. Several studies have investigated the export behaviour of South African firms (see Edwards *et al*., 2008; Edwards *et al*., 2016; Gumede, 2004; Gumede & Rasmussen, 2002; Matthee & Krugell, 2012; Matthee, Rankin, Naughtin *et al.,* 2016; Matthee, Rankin, Webb *et al.,* 2018; Naughtin & Rankin, 2014; Rankin, 2001, 2005, 2013). However, most of the literature on the topic has been limited by the scarcity of firm-level data. The following sections review past research on South African exports at the firm level and its contribution to the literature on the characteristics of exporting firms.

4.3 Characteristics of South African export firms

To increase the export levels and competitiveness of South African firms in foreign markets, it is important that policymakers and managers of exporting firms have the required knowledge on how export firms behave and react in an international environment, as well as the underlying processes of South Africa's exports. Most of the existing literature on countries' trade flows focuses on industry-level or aggregate data. However, aggregate exports are simply the total of all firm-level exports put together. The firms are the decision-makers when it comes to the choice of entering or exiting foreign markets and of the quantities to be exported. In addition, firms control labour demand. Consequently, it is vital to understand the function of firms, the factors that constrain or determine firm-level exports, and the connection between labour demand and export behaviour to fully comprehend exporting and its effect on economic development and growth.

Research on South Africa's firm-level behaviour has increased progressively over the years. However, the majority of these studies are limited, as sample survey data were applied in most of the studies (Edwards, Rankin *et al*., 2008; Gumede, 2004; Gumede & Rasmussen, 2002). From past research, it can be concluded that South African exporting firms are larger, more productive, pay higher wages, and require higher-skilled labourers compared to non-exporters (Edwards, Rankin *et al*., 2008; Edwards *et al*., 2016; Gumede, 2004; Gumede & Rasmussen, 2002; Matthee, 2018; Matthee & Krugell, 2012; Matthee, Rankin *et al.,* 2016; Naughtin & Rankin, 2014; Rankin, 2001, 2005, 2013; World Bank, 2014b). Furthermore, South African exporting firms are heterogeneous when it comes to the type of export destinations selected for their products, their export dynamics, the number of export products, and the number of destinations the products are exported to (Matthee, Idsardi *et al.,* 2016; Rankin, 2001, 2013; Rankin & Schoër, 2013).

Past research has also found evidence of a larger percentage of exporters among subsidiary firms (Gumede & Rasmussen, 2002). However, being part of any business association has no positive impact on the likelihood of exporting. Exporters also have a higher probability of being foreign owned, owning a website, and using suppliers of South African origin when collecting information (Rankin, 2005). Lastly, Matthee and Krugell (2012) established that the differences between exporting and non-exporting firms are found in the net value of capital (machinery and land), total sales, total cost of labour, the share of the unionised workforce, as well as the number of temporary and full-time employees.

The stylised facts of firm-level export characteristics are relatively well known. The characteristics of South African export firms are similar to those found by Bernard, Jensen *et al*. (2007) in the US. (See chapter 3 for a more detailed review of the findings of Bernard, Jensen *et al.* (2007)). The following sections discuss the main characteristics of South African export firms in more detail.

4.3.1 Firm size

According to Rankin (2001), South African exporting firms are larger than non-exporters even before the firms start to export. By the time the firms enter the export market, their employment levels have increased by 15 per cent. In contrast, firms exiting the market are smaller on average, having reduced their size by 60 per cent upon leaving the export market (Rankin, 2001). Thus, a strong relationship exists between South African firms' size and export status.

Research conducted by Anjinho and Rankin (2008) recommends that smaller-sized South African exporting firms consider entering foreign markets, compared to the larger exporting firms in comparable countries. This could be explained by the fact that South African firms frequently choose to export to other countries within their region. Furthermore, the relationship between exporting and firm size may be linked to the extent of the local market. Successful firms could quickly outgrow the local market and must, therefore, extend their range into international markets to generate added profits. This could explain why firms choose to enter regional markets, as customer preferences and taste are possibly similar to those in the local market.

Similarly, Rankin (2013) observed a link between export success (in terms of firm survival) and export size. Exporting firms of smaller size were not able to continue to export to foreign markets unless they expanded into firms comprising a minimum of 50 to 100 labourers. Naughtin and Rankin (2014) also found positive associations between firm size and exports when applying a large-scale survey (LSS) of 2005 and 2008, including 10000 of South Africa's firms. According to their findings, the top 5 per cent of exporting firms had 100 or more labourers employed.

When encouraging new exporting firms to engage in exports, it is essential to consider the target market characteristics and whether a considerable number of suitably sized exporters exist to align with the attributes of these potential markets (Buerki *et al.,* 2014). A question that is important for any export strategy is, therefore, how significant is the size of a firm in the process of exporting. Exporters tend to be both more productive and larger compared to non-exporters (Edwards *et al.,* 2016). Thus, the objective of encouraging smaller South African firms to engage in exports, particularity in international markets reaching beyond the SADC region, may not be a reasonable policy practice (Rankin, 2013). Moreover, larger firms that have managed to reach above the necessary productivity threshold are most likely already present in the foreign markets.

These findings propose that policies with the aim of pushing South African firms to start exporting may not be an efficient approach. Rather, policies must aim at developing clusters of potential exporters that possess the appropriate productivity level and size to be able to compete in the export markets. Policies that promote competitiveness, facilitate export entry, stimulate firm growth, and improve business environments along with reducing costs will aid in this process (Matthee & Krugell, 2012).

4.3.2 Firm productivity

A positive relationship between productivity and aggregate exports is found in the South African empirical literature. Belli *et al.* (1993), Jonsson and Subramanian (2001), Arora and Bhundia (2003), and Fedderke (2006) analysed the associations between productivity and openness[14] using industry and aggregate data. Their results support the notion of a positive relationship between openness to trade and productivity. For instance, according to Jonsson and Subramanian (2001), a 10-percentage point improvement in openness results in a 5 per cent rise in long-term TFP.

Other research has concentrated on the direct link between productivity and exports. A positive relationship between labour productivity and exports was found by Edwards and Golub (2004) when applying data from 28 different industries in the period 1970 to 1997. Jenkins (2008) evaluated the impact that export orientation has on the TFP in a labour demand function by applying panel data from 28 manufacturing industries over the period 1980 to 2001. However, theesults were only significant in about 50 per cent of the estimates (with an elasticity of roughly -0.02) and highly sensitive to time-fixed effects and the presence of industry. Thus, the relationship between aggregate

[14] Openness to trade is measured by adding the sum of real imports and real exports divided by real GDP. The higher the ratio, the more the country concerned is exposed to international trade.

exports and productivity covers the heterogeneity of the firm-level relationship. Consequently, it is difficult to conclude whether the relationship reflects the composition of the firms within industries or firm-level productivity improvements. For instance, exporters usually have higher productivity levels compared to non-exporters. Trade cost reductions that stimulate the growth of existing firms and negatively affect inefficient firms will lead to increases in aggregate productivity without improving the existing firm's productivity levels (Edwards *et al*., 2008).

Rankin (2001) established that firms with higher levels of efficiency had higher probabilities of exporting to markets outside the SADC. This is arguably due to the fact that firms must exceed an efficiency threshold (amount of output produced based on a set amount of input) before they can start to export globally (Rankin, 2001). Similarly, firm productivity is associated with export destination, with findings indicating that firms exporting outside of the SADC region had higher levels of productivity compared to firms exporting solely within SADC (Edwards *et al.*, 2008). Rankin (2013) highlighted the importance of understanding the underlying allocation of firms in South Africa, regarding both productivity and size. It is unknown how many firms are on the brink of entering foreign markets, and this threshold can be measured by means of firm size, productivity, or both.

Owing to the historical lack of firm-level data over time, the sources of South African firm-level aggregate productivity growth have remained relatively unknown. However, studies conducted in other countries shed light on the connection between firm-level exporting and productivity. As mentioned in chapter 3, numerous firm-level studies on the link between exporting and productivity have investigated whether firms with higher productivity levels self-select into exporting (the self-selection hypothesis), or whether the productivity levels of firms increase after entering international markets (the learning-by-exporting hypothesis). According to empirical evidence, the self-selection hypothesis predominates for the US, Colombia, Mexico, and Morocco (Bernard & Wagner, 1997; Bernard & Jensen, 1999b, 2001; Clerides *et al.,* 1998; Fafchamps *et al*., 2002). However, for China and Slovenia, the learning-by-exporting hypothesis prevails (De Loecker, 2004; Kraay, 1999). In the case of African firms, the evidence is mixed.

In their studies on Cameroon, Ghana, Kenya, and Zimbabwe, Bigsten *et al.* (2004) and Van Biesebroeck (2005) found proof of both the self-selection hypothesis and the learning-by-exporting hypothesis being used. Their research indicates that exporting is linked with an increase in productivity, particularly with regard to value-added. In the short term, this increase is estimated to be approximately 20 to 25 per cent, while in the long term, it can potentially reach up to 50 per cent. These findings suggest the possibility of substantial productivity gains for African firms if they orient their manufacturing sector towards exporting (Bigsten & Söderbom, 2006).

However, Rankin *et al.* (2006) found that, when previous export participation and firm size are controlled for, productivity is not a significant factor in export participation. This indicates that self-selection does not play an essential role in the African context. Furthermore, their work, which applied panel data spanning seven years for firms in Ghana, Kenya, and Tanzania, suggests that firm size holds more importance than productivity levels. Larger firms appear to be more productive compared to smaller firms in general, which could partly explain previous findings.

The abovementioned studies applied firm-level panel data that discern the exit from, and entry into, export markets. For the productivity calculation of these studies, comprehensive information is needed regarding the production relationship from output values to the intermediate input costs. This information may be used to create a production function that can estimate a firm's productivity levels. It is, however, essential to properly deflate inputs and outputs (Edwards *et al.,* 2009). The production function is based on real values, and a failure to deflate input and output values results in price changes that will incorrectly be attributed to the productivity variable. Thus, surveys collecting price-level data at the firm level are needed to appropriately deflate input and output values.

In the case of South Africa, most surveys have failed to include such data, for example, the National Enterprise Survey and the World Bank Greater Johannesburg Metropolitan surveys (2000), and the World Bank Investment Climate surveys (2003; 2007; 2008). Thus, without essential firm-level data, it is difficult to confirm the link between exporting and productivity in the South African context.

4.3.3 Total output and export shares of South African export firms

The first question that must be addressed by any export promotion strategy is whether a rise in aggregate export volumes should be encouraged by increasing either the number of firms participating in the international markets, or the volumes being exported by existing exporting firms (Besedes & Prusa, 2007). South Africa's aggregate exports are currently dominated by a few exporting firms due to the country's historical reliance on exports from the mineral industry and its high concentration ratio of exports from other industries trading in non-extractive goods (World Bank, 2014b). Thus, it would be sensible to support an increase in the export participation of new firms, as well as a rise in the export volumes of currently exporting firms (Rankin, 2013). Most South African exporting firms only export a fraction of their total output, which indicates that there is potential for current exporting firms to increase their export volumes (Edwards *et al.,* 2008; Gumede & Rasmussen, 2002; Rankin, 2001).

According to Rankin (2001), exporting firms produce higher levels of output per employee compared to non-exporters. Rankin (2001) analysed firm-level data presented by the World Bank and Greater Johannesburg Metropolitan Council (GJMC) in 1999. According to his findings, 71 per cent of the 325 firms included in the sample exported, and the average export intensity was 18 per cent of output. Export volumes exceeding 10 per cent of output were only found in less than 50 per cent of the firms.

Similarly, Gumede and Rasmussen (2002) investigated the main success factors of exports by applying data from the National Enterprise Survey (NES) of 1999-2000. Their findings show that, among very small firms (six to 20 employees), small firms (21 to 50 employees), and medium-sized firms (51 to 200 employees), the share of firms that exported was 25 per cent, 41 per cent, and 59 per cent, respectively. A relatively large percentage of South African firms do export; however, their export earnings comprise only a minor share of total revenue (Gumede & Rasmussen, 2002). Approximately 50 per cent of the firms realised export earnings of no more than 7 per cent of total revenue.

Naudé *et al.* (2005) observed export determinants of 135 firms in the manufacturing sectors in the North-West Province between 1999 and 2002. They found that, on average, 44 per cent of the interviewed firms exported their products. In 2001, 63 per cent of the large firms and 68 per cent of very large firms exported their products. When analysing the determinants of South African exports, Naudé *et al*.'s (2005) established that the larger and more efficient firms tend to export a greater share of their outputs. However, most of the large and very large firms in the study did not specialise in exporting and exported merely 16 and 20 per cent of their output, respectively.

According to Matthee *et al*. (2018), specialist exporting[15] is rare. Still, a small number of firms are responsible for the majority of South Africa's total export value, as merely 5 per cent of South African exporting firms account for 93 per cent of the country's exports (Naughtin & Rankin, 2014). Less than one-fifth of South African firms export their products in any given year. Rapid entry into and exit from the export market also characterises this market. However, expansion on the intensive margin is responsible for most of South Africa's export growth. Furthermore, there is significant heterogeneity among exporting firms, including variations in the number of their total exports, the diversity of products they export, and the number of export markets they serve (Matthee *et al*., 2018).

[15] Specialist exporting occurs when more than half of the value of a firm's total output is exported.

4.3.4 Employment and wage premiums of South African export firms

Research conducted by Rankin (2001) revealed that exporting firms are not likely to create job opportunities for the unskilled workforce as they generally require higher-skilled employees and, therefore, pay higher wages. Edwards *et al.* (2008) found similar results, namely that South African exporters in the manufacturing sector generally have higher demands for skilled labour. Thus, an increase in exports will result in a rise in the demand for skilled labour. South Africa's unemployment rate is currently higher among workers with lower levels of education (Oosthuizen & Bhorat, 2005). Export growth is, therefore, unlikely to have a significant multiplier effect on South Africa's employment levels, as the labour demand of exporting firms are focused on higher-skilled labour (World Bank, 2014a).

On the other hand, Rankin (2013) found that job creation based on export-led trade policies might be the solution for South Africa's persistent unemployment challenge. However, it is not an absolute solution, as South Africa's export process is nuanced. For the country to generate large amounts of export-related jobs, firms should be competitive at an international level. This, in turn, requires an economic environment that allows existing firms to increase their level of competitiveness, or encourages such firms to establish their business in South Africa (Edwards *et al.,* 2008; Matthee & Krugell, 2012; Naudé & Matthee, 2007; Rankin, 2013).

Rankin and Schoër (2008) studied firm-level data published by the World Bank Investment Climate Assessment (ICA) 2003 survey. The survey included 603 manufacturing firms located in the provinces of KwaZulu-Natal, Eastern Cape, Western Cape, and Gauteng. They analysed labour demand, wages, and exporting by applying firm-level data that were matched with employees from the survey of 2003. Their findings showed that exporting firms had a higher probability of employing males, older workers, and workers with higher levels of education. The differences were, however, not significant after controlling for the province, job type, firm size, and sector.

Rankin and Schoër (2008) also studied significant exporters and direct exporters that export a larger proportion of their output, but these factors did not impact the kind of workers employed by the firms. Export destination was the only factor of importance, as workers employed by exporting firms in the SADC region had a higher probability of being male and of a younger age than employees hired by exporting firms located outside the SADC. Their research included an estimate of the Mincerian wage

equation[16] to determine whether there are any wage differences across firms with different export behaviours. The findings uncovered that working for an exporting firm does not necessarily indicate different wage levels. Wage levels differ among South African exporting firms due to their heterogeneity when it comes to firm dynamics, the number and type of export destinations, and the number of products exported. However, higher wages were paid out to workers employed by exporters located outside of the SADC region, while exporters located within the SADC region paid lower wages.

Later research conducted by Rankin and Schoër (2013) found similar evidence on the importance of export destinations. Exporting firms that export their products outside of SADC paid their workers higher wages, although workers hired by exporters supplying to the SADC region did not receive any export wage premiums. Firms exporting to markets outside of Africa earned a wage premium of approximately 17 per cent (Rankin & Schöer, 2013). Export destinations were further linked with the skill level of the workers and product quality. According to Rankin and Schöer (2013), exporters outside of Africa gained a skills premium, whereas exporters within Africa did not.

The findings of Rankin (2013) and Rankin and Schöer (2013) were confirmed by Matthee, Idsardi *et al.* (2016). Their research distinguished between exporting firms supplying various foreign markets, namely non-Africa (firms exporting to countries located within, as well as outside of Africa) and Africa (firms exporting solely to countries located in Africa). Their findings showed that the non-African exporting firms hired more workers, who were also paid higher wages compared to African exporters. In addition, their study examined firm size and wages by considering the number of export destinations supplied as well as the number of exported products to these markets. Similar to Bernard *et al*. (2009), Matthee, Idsardi *et al*. (2016) proved that multi-destination and multi-product exporting firms hired more workers and paid higher wages compared to single-destination and single-product exporting firms.

[16] The Mincerian wage equation is arguably the most applied specification of empirical wage equations. The equation is designed to provide estimates of a labourer's average income returns of one additional year of education (Patrinos, 2016). Such information is crucial for policymakers, who are responsible for managing a country's spending on education.

Lastly, Bezuidenhout *et al.* (2020) investigated the wage levels of South African manufacturing exporting firms relative to non-exporting firms and confirmed previous findings that employees of exporting firms earn a wage premium compared to employees of non-exporting firms. Wage inequality can be explained by firm size and labour productivity, which implies that more productive and larger firms are more likely to export. Thus, wage inequality is driven by neither the quality of the products exported nor the export destination. Instead, it is simply a result of the export process itself, or the mere presence of a firm in the export market (Bezuidenhout *et al.*, 2020).

The above discussion on export firm characteristics confirms Edwards *et al.*'s (2008) findings that exporting firms in South Africa align with the stylised facts regarding exporting firms from other countries. Thus, South African exporters exhibit similar behaviour as their US counterparts: They are older, larger, have higher productivity levels, pay higher wages and are more capital intensive compared to non-exporters. (See section 3.3 for the characteristics of export firms for countries in general.)

Furthermore, South African export firms tend to have rather low levels of export participation and seem to export only a small share of their outputs when they choose to enter foreign markets. A possible reason for these similarities could be the parallels between the South African and the US economies. They are both located relatively far away from potential markets in developed countries and have relatively large domestic markets and small neighbouring markets. The observed patterns could also be explained by other reasons. For instance, the potential foreign markets for South African products could be limited, or South African firms are merely approached by foreign firms or distributors for once-off deliveries, resulting in occasional exports to these international markets (Edwards *et al.,* 2008). South African firms may also use these foreign markets as a "vent-for-surplus" only.

Nevertheless, research shows that exporting firms supplying developed countries have higher productivity levels, employ more skilled workers, produce products of higher quality, and pay higher wages (Rankin, 2013). Such findings correspond with evidence from international studies, suggesting that firms exporting to countries with higher income levels require more skilled workers to produce products of better quality, for which they earn higher wages (Brambilla *et al.,* 2012; Brambilla & Porto, 2016; Verhoogen, 2008).

An analysis of firm-level export behaviour over time is needed to determine which of the abovementioned explanations are the most accurate. Most research on South African exports at the firm level has applied cross-sectional data and cannot be related with aggregate export changes over time. Until recently, random-sample, firm-level panel data for South Africa were not available. Without such data, only a few conclusions can be drawn regarding the dynamic nature of South Africa's exports. Administrative panel data on South African firms have recently been made available by the South African Revenue Services (SARS), allowing researchers to investigate the heterogeneous behaviour and dynamics of South African firms over time. Thus, such data may be used to inform policymakers on how to implement export-led strategies in the best way possible to stimulate economic growth and development in the country. Edwards *et al*. (2016), Matthee, Idsardi *et al*. (2016), Matthee, Rankin *et al.* (2016), Matthee *et al.* (2018) and Bezuidenhout *et al*. (2020) are among the first to have applied this firm-level panel data on South Africa.

To conclude, the literature on South African exports offers some interesting glances at South African firms' export behaviour. It is evident from the literature that only a small number of exporting firms are responsible for the majority of South Africa's total export value. Exporting firms are larger, have higher productivity levels, pay higher wages, have higher value-added per worker, and are more capital intensive than non-exporters. Heterogeneity is also seen among firms that supply different markets. As emphasised by Edwards *et al*. (2008), severe data shortcomings have limited the possibilities for more in-depth analyses. To gain insight into South African exports, the dynamic nature of firms must be examined over time. Research by Matthee and Krugell (2012), Rankin (2013), Naughtin and Rankin (2014), Edwards *et al.* (2016), Matthee, Idsardi *et al*. (2016), Matthee, Rankin *et al.* (2016), Matthee *et al*. (2018) and Bezuidenhout *et al*. (2020) contributed in this regard, as they investigated the behaviour of South African exporting firms over a period of several years.

Exports are hindered by numerous constraints and barriers. The following section examines the barriers currently limiting the export performance of South African firms.

4.4 Barriers to trade for South African export firms

South African firms experience several barriers to trade when they engage in exporting. (See section 3.4.1 for a description of barriers faced by export firms internationally.). The same applies to existing exporting firms when they expand their exports with new products or enter into new markets (Hollensen, 2007). Thus, to increase South Africa's export levels, decision-makers must recognise not only the barriers faced by exporting firms, but also their resources and capabilities (Department of National Treasury, 2019; Ramaseshan & Soutar, 1996).

Koch and Peet (2007) conducted a survey on non-tariff barriers faced by South African firms, which included 85 exporting and potentially exporting firms. Their findings show that South African firms, especially the smaller firms, encounter multiple barriers when attempting to export their products. These barriers are mainly related to technical regulations in the destination country and a lack of available information. According to Koch and Peet (2007), the export barriers are not specific to the destination country or industry. However, the barriers are determined by the destination country's assessment activities and regulations. In this regard, Rankin (2006) analysed the impact that regulatory environments have on firms, particularly SMEs, by applying four independent cross-sectional data sources.[17] His findings showed that government regulations have unintended costs and negative consequences for South African firms. The constraints that firms found most challenging to overcome were labour market regulations, availability of skilled workers, macroeconomic instability, theft and crime (Rankin, 2006).

In their research on firm-level export barriers, Loots and Krugell (2011) applied data from the ICA 2007 to create infrastructure service delivery indicators. According to their findings, firms included in the survey regarded infrastructure as less of a constraint of doing business, and most firms reported above average or average experiences with the delivery of infrastructure services. The large firms reported the most severe delivery service concerns. However, no systematic differences were found in the delivery among South Africa's four major cities.

[17] The first source applied by Rankin (2006) was the World Bank / Greater Johannesburg Metropolitan Council survey conducted in 1999. Manufacturing firms with 50 or more employees located in the Johannesburg Metropolitan area were interviewed in this survey. The second source was the National Enterprise Survey (NES), also conducted in 1999. The survey covered South African services and manufacturing sectors and included firms of all sizes. The third source was the Small Business Projects (SBP) survey conducted in 2004 for the "Counting the Cost of Red Tape for Business in South Africa" report, which included a large range of firms in various sectors. Lastly, the fourth data source was the World Bank's Investment Climate Assessment (ICA), which was conducted in 2003 and surveyed South African manufacturing firms.

A positive correlation was found between output per employee and the aggregate service delivery of infrastructure. In addition to infrastructure barriers, access to finance is commonly viewed as an important determinant for exports (Krugell & Matthee, 2009).

Research conducted by Krugell and Matthee (2010) suggests that firms facing financial constraints were less capable of handling high levels of competition and external shocks. These firms contributed less to economic growth and employment creation in the country, were less established, kept less stock, had lower utilisation of capacity, and were smaller compared to financially stronger firms. Financially constrained firms were also less likely to present new products into their product line as a response to increased competition and had low probabilities of becoming exporters. The results of Krugell and Matthee's (2010) regression model confirmed the hypothesis that financial access and various financial sources are important determinants of firm-level productivity and export levels.

According to Edwards *et al*. (2008), firm behaviour should be analysed over time to gain insight into its dynamic nature. Examining a firm over time gives a broader understanding of its behaviour, compared to cross-sectional analyses. Matthee and Krugell (2012) constructed a unique panel, based on the World Bank Enterprise Survey data for the years 2003 and 2007, to evaluate the barriers that South African exporting firms experience. Their research showed that the high administrative costs associated with entering different markets underscore the importance of promoting regional integration in South Africa. This can be achieved through administrative processes and trade regulations, coupled with efforts to pursue infrastructure development. Such measures can, in turn, increase access to other countries within the SADC region.

Rankin (2013) conducted another study analysing export barriers over time. He investigated the constraints that South African firms face when engaging in exporting and how firms rank their level of importance in 2009 and 2012. According to his findings, fluctuating exchange rates were singled out by two-thirds of the firms as the most severe export barriers in 2012. This is a considerable increase from 50 per cent of the firms facing this challenge in 2009. Second on the list of the most common barriers were transport costs, which a larger portion of the firms regarded as a significant barrier in 2012 compared to in 2009. Transport logistics ranked seventh on the list, indicating that issues related to transportation have a significant effect on the export behaviour of firms. Thus, reducing export-related transport costs should lead to an increase in export participation to such an extent that South African products would become more competitive in foreign markets (Naudé & Matthee, 2007).

Fourth on Rankin's (2013) list were marketing costs, which firms also considered as a more important barrier in 2012 than in 2009. A significant increase was seen in the share of firms regarding foreign market competition as an important export barrier, with approximately one-third regarding competition as a major issue in 2012. Although the perception of barriers had increased in most of the categories, exporting firms found customs, contracting buyers, and the documentation process to be easier in 2012 than in 2009. Exporting firms in the SADC region ranked barriers to export similarly to exporters in general. However, a smaller share of SADC exporters regarded transport costs and fluctuating exchange rates as major barriers, but this divergence has disappeared since 2009 (Rankin, 2013).

Rankin (2013) also established that exporting firms in the SADC region were more inclined to rank language barriers and transport logistics as major barriers, and the number of exporters mentioning these constraints had increased. Furthermore, SADC exporters had a higher probability of mentioning tariffs and customs issues as export barriers in 2012, compared to firms exporting to markets in other regions (Rankin, 2013).

In general, the main barriers faced by South African exporters, namely foreign market competition, transport costs, and fluctuation exchange rates, seem to become more onerous. However, the efforts by government departments like the Department of Trade and Industry (DTI) to reduce such barriers vary greatly (Rankin, 2013). A rise in export volumes is as much a result of a range of policies aimed at developing the country's business environment as it is a result of policies aimed at raising the country's level of export participation (Rankin, 2013). Thus, improvement in the business environment, better transport infrastructure, diminished regulatory burdens, and lower production costs are all factors that may aid in improving business overall, and exporting firms in particular (Jaeger, 2008; Leonidou, 2004; Matthee & Krugell, 2012).

Reduced port and cargo handling charges, better trade facilitation, and improved custom clearance efficiency, especially in the SADC region, may also aid in increasing South Africa's export levels. Exchange rate fluctuations are the result of South Africa's monetary policies, exchange rate regime, capital flows, the perception of the general economic policies in the country, and other issues such as sovereign risk perceptions (Edwards & Garlick, 2008). Controlling these volatilities is extremely difficult without making major changes in the management of exchange rates. Improvements in the transport infrastructure are needed for the country to reduce its transport costs (Matthee & Krugell, 2012). This also entails improvements in port and rail facilities. The government's focus on infrastructure could assist in this regard, although institutional structures in the transport sector may arguably have to change.

South Africa can do little to influence the increasing levels of competition in international markets. The best way to respond will be to raise the level of competitiveness in domestic firms, which, in turn, will improve their competitiveness in international markets, as well as increase their ability to compete in the domestic market (Rankin, 2013). Focusing on improving the business environment in the domestic market and keeping production costs low could, therefore, increase the competitiveness of South African firms. Trade facilitation reforms like the harmonisation of regulations associated with trade and transport, improvements of procedures involved with customs, and tariff reductions within SADC will also benefit firms in South Africa that export to, or are planning to export to, the region in the future (Rankin, 2013).

It is evident from the abovementioned literature that barriers to export largely affect South Africa's export levels and impede further growth and development in the country. To further elevate South Africa's position and competitiveness in foreign markets, the effect that these barriers have on firm-level exports must be minimised. Research conducted on export barriers faced by South African firms is currently limited to Rankin (2006), Koch and Peet (2007), Loots and Krugell (2011), Matthee and Krugell (2012), and Rankin (2013).

If South Africa were to increase its export levels, it would be essential to develop a better understanding of these barriers and how they affect the export performance of South African firms. In this regard, the study aimed to contribute to the literature by collecting primary data on export barriers faced by South African export firms. A better understanding is also needed of how South African exporters operate, their export strategies, and their preferred IMS approaches. Selecting the right export market is one of the key steps in a firm's internationalisation process. The following section discusses the available literature on the topic and explains the importance of applying the right IMS strategies for South African firms.

4.5 International market selection of South African export firms

A wide range of literature has analysed the IMS process of firms (see section 3.5). However, most research on the topic has focused on exporting firms in developed countries (Brewer, 2001). Some studies have examined the IMS process of selected emerging markets, primarily countries located in Asia and Latin America, with a particular focus on China, Brazil, and India (see Aminian *et al.,* 2007; Banga, 2005; Bouyoucef & Chung, 2015; He & Wei, 2011; Masron & Shahbudin, 2010; Poncet, 2009; Ragland *et al.,* 2015; Sun, 2009). Yet, research on the firm-level IMS process of other emerging markets, including South Africa is limited or lacking from the literature (Sun, 2009; Vögel, 2015). This study sought to contribute to the literature on the firm-level IMS of emerging markets by analysing the export behaviour and market selection strategies of South African exporting firms.

South Africa is generally viewed as a gateway to the African continent. Compared to other African countries, South Africa is ranked as the main source of FDI in Africa, contributing $40.9 billion in 2018, followed by Egypt ($5.1 billion), Nigeria ($4.8 billion), Morocco ($2.1 billion), and Algeria ($0.9 billion) (UNCTAD, 2023). South Africa's large increase in FDI from $3.1 billion in 2020 to $41 billion in 2022 was the result of a large corporate reconfiguration, which occurred in the last quarter of 2021 (UNCTAD, 2023).

Globally, South Africa is ranked as the seventh largest contributor of FDI to Africa with $29 billion, after the UK ($65 billion), France ($60 billion), the Netherlands ($49 billion), the US ($48 billion), China ($43 billion), and Italy ($32 billion) (UNCTAD, 2023). Nevertheless, the important part that South African firms play as some of the main investors in other African economies is often overlooked. Thus, thorough investigation of the IMS process and strategies is required for further development and economic growth of South Africa as a country, and Africa in general.

Past research on IMS strategies and methods has found evidence that some firms, especially those located in emerging markets, still tend to follow a non-systematic approach to IMS (Brewer, 2001; Cavusgil & Godiwalla, 1982; Górecka & Szalucka, 2013; Kobrin *et al.,* 1980; Papadopoulos & Martín Martín, 2011). Cavusgil (1985) emphasises the importance of following a systematic approach to IMS, as the cost of potentially choosing the wrong export markets could greatly exceed the cost of following a more comprehensive and structured approach to IMS. (See section 3.5 for a more comprehensive description of IMS strategies).

Until recently, research on South African firm-level IMS was lacking from the literature. However, Ashley *et al.* (2022) recently investigated the IMS processes of South African firms. In this qualitative descriptive study, 12 semi-structured interviews were conducted with senior managers responsible for the IMS in South African firms. The findings revealed that these firms followed a systematic, four-step IMS process. The IMS process of the participating firms was, however, more flexible compared to the process suggested by theoretical models, particularly regarding the criteria used to select a potential export market.

This study investigated how South African firms approach IMS when selecting new export markets for their products and analysed why they do not utilise export market opportunities aligned with import demand and export supply.

4.6 Summary and conclusion

Exports are widely recognised as a creator of economic growth. As South Africa is struggling with low economic growth and high unemployment levels, increasing exports is a fundamental part of the policies of the South African government. The NGP was created to increase economic growth to 7 per cent annually over a period of 20 years and to reduce unemployment levels. This would be achieved by growing South Africa's potential markets through an increase in exports to countries in Southern Africa. However, a reduction in the country's levels of protection has resulted in international competition entering the South African market.

To create a competitive advantage and gain economies of scale, South African firms must enter and compete in foreign markets. Thus, more research is required to better inform and educate the policymakers and firm managers who are responsible for optimising the internationalisation process of South African firms. In this way, South Africa's exporting firms will be better equipped to successfully compete in the new and highly competitive economic environment. To achieve this, the NDP aims at further increasing South Africa's exports. It is important in any export promotion strategy to decide whether the export growth should be encouraged by increasing the volumes exported by already existing firms or by increasing the number of exporting firms. As South Africa's exports are relatively concentrated and dominated by a few firms, it would be advisable to increase the number of exporting firms, as well as stimulate the export volumes of existing firms.

South Africa mainly exports to two vastly different export markets. The first market consists of North America and Western Europe. Firms exporting to these markets are usually specialising in exporting and can, therefore, export a larger amount of their total output. Furthermore, these firms tend to produce higher-quality products, pay higher wages, and are more productive than firms producing solely for the domestic market.

South Africa's second main market is the SADC region and Africa in general. Firms exporting to countries located in Africa tend to produce less sophisticated products, pay lower wages, and have lower productivity levels than firms supplying for domestic markets. Exporting firms supplying the African markets also seem to export only a small share of their total output.

Exporting firms face many barriers to trade when entering new markets or expanding their product range. These barriers need to be carefully considered for South Africa to be able to increase its exports and employment levels and combat current account deficits. The literature indicates that the most severe export barriers for South African firms are fluctuating exchange rates, high transport costs, marketing costs, and language. In addition to high levels of competition in the target markets, these barriers have become more burdensome with time. To increase South Africa's competitiveness in international markets, the effect of export barriers must be minimised. Thus, it is essential to gain more knowledge on how South African exporting firms operate, their dynamics, and their characteristics.

Although firms' IMS strategies have been extensively documented in the literature, the focus has been on developed countries and not on developing countries and emerging markets. Thus, research on the IMS of South African export firms is currently lacking. As one of the main sources of FDI into Africa, the IMS strategies of South African firms must be further investigated to deepen understanding of the current behaviour of exporting firms when it comes to their preferred IMS methods. Such information could be greatly beneficial for managers of exporting firms and policymakers in the development of more efficient and effective IMS strategies and trade policies that might elevate South Africa's overall export levels.

The available literature on South African exports at the firm level has increased over the past years, although most of the research has been limited by the usage of sample survey data. According to past research, South African exporting firms are larger and more productive, pay higher wages, and need more skilled workers than non-exporting firms. In addition, South African exporting firms are heterogeneous regarding target market selection, the number of export destinations, product range, volume of product exports, and firm dynamics.

Although the literature gives insight into the behaviour of South African exporting firms, severe data shortcomings have constrained the possibilities of conducting more in-depth research on the topic. Research on IMS strategies of South African firms is currently missing from the literature. This study aimed to fill the gap in the literature on firm-level IMS of emerging markets by applying primary data to scrutinise the export behaviour and IMS strategies of South African export firms. Chapter 5 presents the results and empirical analysis of this study.

CHAPTER 5: DATA ANALYSIS AND RESULTS

5.1 Introduction

As established previously, increasing export activities of South African firms is critical for economic growth and development. However, a large percentage of South Africa's export potential remains unutilised (see sections 1.1.1 and 4.1). The aim of this study was to investigate how South African firms approach IMS and why those firms with export capacity are not exploiting export opportunities with the large and growing demand for their product. For these purposes, primary firm-level data were collected by means of semi-structured interviews with managers or other key personnel in South African export firms. (See section 2.4 for a detailed explanation of the methodology of this study.)

Chapter 5 presents the results of the study. The results from the interviews are linked to the findings of the desktop analysis conducted in previous chapters and integrated in this chapter. Desktop research was conducted to analyse the market access to the potential export markets identified by the DSM. (See section 2.3.3.2 for a detailed explanation of the desktop analysis.) This analysis collected data on technical barriers to trade, transportation costs, logistics, and tariff measures. The data were collected for the identified potential export markets, as well as for South Africa's top five current export destinations for each of the identified products. This information served as supporting documents during the semi-structured interviews with South African export firms. The results of the interviews are compared with the main findings from the literature on the topic of firm-level IMS (see section 3.5) and export barriers (sections 3.4.1 and 4.4), as well as the results of the desktop analysis. A visual description of the data comparison process followed in this study is presented in figure 5.1.

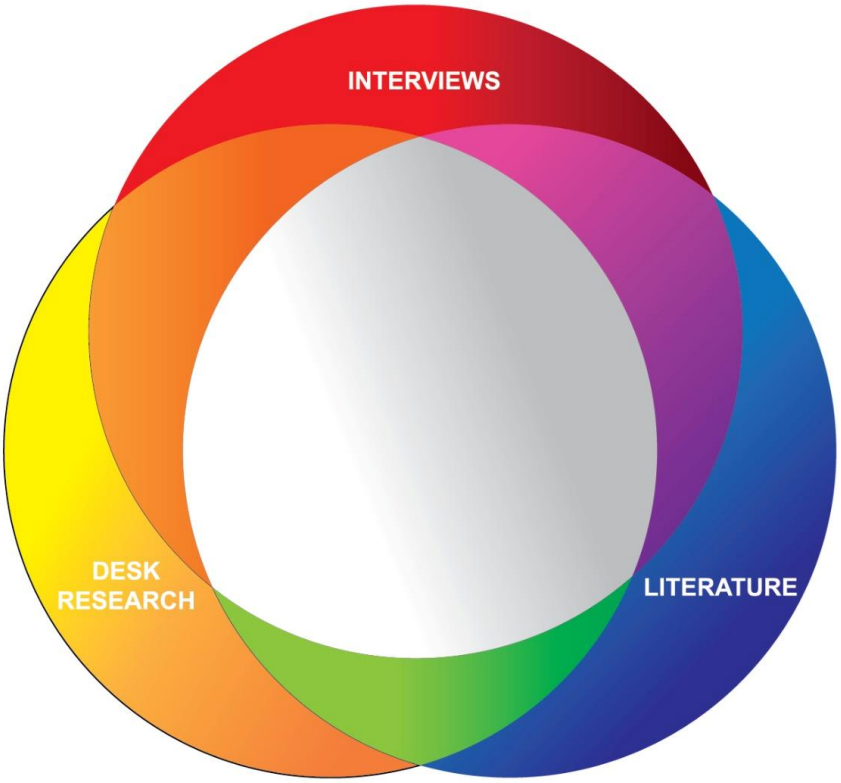

Figure 5.1: The process of data comparison followed in the study

5.2 Thematic analysis

A thematic analysis of the participants' responses to the interview questions was performed in this study. The aim of this analysis was to identify similarities in the responses. The main findings from the in-depth interviews were coded and grouped into themes and categories (Creswell & Creswell, 2022). The study followed Creswell's (2014) six-step linear, hierarchical approach to thematic analysis. (See section 2.4.4.3 for a theoretical description of the six-step approach.) The various steps are interconnected and do not always have to be applied in the order presented (Creswell, 2014).

Soiferman (2020) emphasised the importance of deciding on an analytical strategy before commencing with the coding process of the thematic analysis. Research strategies are commonly categorised into deductive and inductive approaches (Trochim, 2006). The inductive approach typically works from the "bottom up", by applying the views of the participants to generate broader themes and theories that are connecting the various themes together (Creswell & Plano-Clark, 2007).

On the other hand, the deductive approach entails working from the “top down”, that is working from a theory, to a hypothesis, to the data, to contradict or to add to the theory (Creswell & Plano-Clark, 2007).

The research strategy of this study initially followed a deductive approach, as the research was based on reviewing the existing literature on the topic and relying on relevant theoretical propositions (Bryman & Bell, 2011; Bryman *et al.,* 2014). However, during the process of identifying codes to create categories and themes, the research adopted an inductive approach (Bryman *et al.,* 2014). Following Creswell (2014), the six-step approach to thematic analysis applied to this study is presented below.

Step 1: Organise and prepare the data

The interviews were transcribed by using the software programme Otter.ai, which turned the collected data from the interviews into permanent written records and documents. Otter.ai is a software programme that turns voice memos into written documents and transcripts by applying artificial intelligence.

Step 2: Obtain a general sense of the data

The transcribed interviews were imported into ATLAS.ti for further analysis. ATLAS.ti is a software programme that supports the analysis of raw data. ATLAS.ti was used to code the transcripts from the interviews. The codes (single phrases), categories (grouped codes), and themes (overarching traitsof participants) were constructed based on the research questions of the study (see section 1.3) (Friese, 2019).

Step 3: Code the data

An inductive coding process was followed, which involves developing the codes directly from the data (Chandra & Shang, 2019). The codes were developed by applying terms and phrases used by the participants themselves. A line-by-line coding technique was used, which refers to applying codes to each line of qualitative data (interview transcript). When the raw data were coded for the first time, 63 codes were identified. The codes were then refined and gathered into 25 codes.

Step 4: Describe the data

Six categories were developed from the codes:

- Category A: Main factors of consideration when choosing export markets (code 1-2)
- Category B: International market selection criteria (code 3-10)
- Category C: Participants' awareness of potential export markets (code11-13)
- Category D: Reasons for not exporting to potential export markets (code 14-18)
- Category E: Export barriers faced by participants (code 19-20)
- Category F: Most severe export barriers (code 21-25)

The categories were further grouped into overall themes:

- Theme 1: Current export markets of participants (Category A: Main factors of consideration when choosing export markets)
- Theme 2: International market selection strategies of South African firms (Category B: International market selection criteria of participants)
- Theme 3: Market awareness (Category C: Participants' awareness of potential export markets)
- Theme 4: Factors causing underutilisation of export opportunities (Category D: Reasons for not exporting to potential markets)
- Theme 5: Export barriers (Category E and F: Export barriers faced by participants, and most severe export barriers)

Step 5: Present a qualitative narrative

The study conducted semi-structured interviews with key personnel at South African export firms. To ensure their anonymity, the participants' names were changed to identifiers, namely participant number 1 to 11. Table 5.1 presents a description of the participants in this study.

Table 5.1: Contextualised description of sample

Participant number	Male / Female	Position or role in the organisation	Industry of the firm	Years of experience in the firm	Current export markets
1	Male	Marketing manager	Avocados	15	The Netherlands
2	Male	Export sales representative	Steel	25	Angola, Namibia, Malawi, Botswana, Zimbabwe, Mozambique, Zambia, DRC, Tanzania, Kenya
3	Male	Director	Fertiliser	10	Zimbabwe, Zambia, Malawi
4	Male	Director	Steel	15	Ivory Coast, Ghana, Nigeria, DRC, Angola, Namibia, Botswana, Mozambique, Zambia, Tanzania, Kenya, Ethiopia
5	Male	Founder and managing director	Plastics	20	Angola, Namibia, Malawi, Botswana, Zimbabwe, Mozambique, Zambia, DRC, Tanzania, Kenya, Germany
6	Female	General manager	Avocados	16	Europe, Russian Federation, UK
7	Male	Director	Cornflour	26	Zimbabwe
8	Male	Executive director	Plastics	12	SADC, Germany, UK
9	Male	Executive officer	Red meat	4	China, United Arab Emirates, Egypt, Mozambique, Angola, Zimbabwe, Mauritius, Ethiopia, Seychelles,
10	Male	Financial director	Trailer manufacturer	19	Namibia, Malawi, Botswana, Zimbabwe, Mozambique, Zambia, DRC, Tanzania, Kenya
11	Female	General manager	Charcoal manufacturer	10	Israel, Greece, Sweden, Norway, Denmark, Germany, the Netherlands, Belgium, Switzerland, France, UK

Source: Author's own compilation.

The findings of the study are discussed in this chapter by means of a detailed presentation of the themes, categories, and codes identified in the data analysis process. The themes serve as the main headings of the chapter, while the categories and the subsequent codes serve as the sub-headings. A thematic framework was constructed to provide an overview of the themes, categories, and codes. The thematic framework is presented in Table 5.2.

Table 5.2: Categories constructed from thematic analysis of in-depth interviews: Thematic framework

Theme	Category	Code
1: Current export markets of South African firms	A: Main factors of consideration when choosing export markets	1: Market proximity to South Africa
		2: Product characteristics
2: IMS strategies of South African firms	B: IMS criteria (of participants)	3: Relationships and social capital
		4: Market orientation
		5: Market access
		6: Supply and demand
		7: Institutional environment
		8: Cultural distance
		9: Geographic proximity
		10: Competitive strength of the industry
3: Market awareness	C: Participants' awareness of potential export markets	11: Aware of all the potential export markets
		12: Aware of 2 or more of the potential export markets
		13: Not aware of any of the potential export markets
4: Factors causing underutilisation of export opportunities	D: Reasons for not exporting to potential export markets	14: High transport costs
		15: High levels of competition in the potential export market
		16: Subsidies
		17: Product quality
		18: Unwillingness to change

Theme	Category	Code
5: Export barriers	E: Common export barriers faced by the participants	19: Internal export barriers
		20: External export barriers
	F: Most severe export barriers	21: Logistical issues
		22: Lack of government cooperation
		23: Electricity issues
		24: Cost of capital
		25: Varying standards and protocols

Source: Author's own compilation.

To ensure reliability, the codes and transcripts were cross-checked throughout the analysis process (Creswell, 2014). Following Yin (2014), this study was measured against four criteria to ensure rigour: construct validity, internal validity, external validity, and reliability. (See section 4.4.5 for an explanation of the criteria.) Triangulation refers to the use of multiple data sources to address a research question or problem (Creswell, 2014). Validity of the study was ensured by applying several data sources and combination of research methods (Yin, 2014). Direct quotes from the interviews were used to emphasise certain topics and to personalise the data obtained from the interviews.

Step 6: Interpret the data

The study included a thorough literature review to better understand the topic and problem statement. The literature review further served as support and validation for the codes, categories, and themes constructed in the thematic analysis. The desktop analysis identified and analysed the factors that affect a firm's level of market access into potential export markets. The findings from the desktop analysis and interviews conducted with South African exporters were compared with the findings from the existing literature on the topic. The themes identified in the thematic analysis are presented as a qualitative narrative in the following sections.

5.2.1 Theme 1: Current export markets of South African firms

To obtain an overview of the main export destinations of the participating South African firms, the participants were asked to identify the markets to which they were exporting their products at the time of the interview. Most of the participants were exporting exclusively to other African countries. The participants indicated geographic proximity as of great importance, as well as markets being reachable by road transport (see section 3.5.2.4). The characteristics of the products being exported also seemed to play a significant role in the market selection. Thus, the export markets' proximity to South Africa and the product characteristics represented the underlying reasons for the participants' current export market choices. These factors are discussed in the following sections.

Category A: Main factors of consideration when choosing export markets

Several factors were indicated to be of importance when identifying an export market. For the export activity to be successful, there must be good communication and cooperation between the exporter and importer of the product in question. From the interviews, it was particularly two factors that emerged as the underlying reasons for exporting to specific countries, namely how close the country is located to South Africa, and the characteristics of the product being exported. They were designated Code 1: Market proximity to South Africa, and Code 2: Product characteristics are discussed in the following sections.

Code 1: Market proximity to South Africa

From the conversations with the exporters, it became evident that most of the participating export firms were exporting to countries located in Africa, more specifically the SADC markets and Sub-Saharan African countries.

"So mostly, when we speak about exports, we think about Africa almost exclusively." – Participant number 2.

The reason that the participants exported mostly to neighbouring countries was due to their close geographic proximity. One of the criteria mentioned by the participants was that the export market must be reachable by road. Thus, transport costs and time were one of the main considerations when selecting export markets. By selecting a market within reasonable distance, the cost of transportation and turnaround time are lower. Similarly, it is easier to have a footprint and to send a representative of the firm to export markets within close proximity in cases where a presence is needed.

"SADC is the closest to us, it's our neighbours. That's where the biggest market for us is at the moment, unless we can compete in terms of price and so on." – Participant number 5.

Furthermore, countries located within close geographic proximity are more likely to share similar cultures and language (see section 3.5.2.4). Cultural similarities can be of great importance in a business relationship, easing any challenge related to customs and legal requirements in the importing country (O'Farrell & Wood, 1994) (see section 3.5.2.3). Thus, the findings of this study confirm the findings of the literature, which emphasise the inclusion of geographic proximity as a factor in a firm's IMS strategies (see section 3.5.2.4).

Code 2: Product characteristics

The characteristics of the products to be exported play a significant role in market selection. According to the participants, heavy and bulky products are costly to transport and are, therefore, exported to destinations within close proximity to South Africa. It would not make economic sense to transport such products to destinations located far away from the export market. Products with high weight-to-value ratio and rapid delivery requirements (e.g., avocados, medical devices), on the other hand, are commonly exported to markets located further away, such as Europe and the UK (Lall *et al*., 2005). Thus, there is a balance between the cost of the product and the cost of transportation. Product characteristics are, therefore, directly related to the transport costs of the product in question. The findings of this study thus confirm the findings of previous research, namely that high transport costs are an internal export barrier (see section 3.4.1).

"*Our plastic pipes are big. They're very big and bulky. So, with those products, from an exporting point of view, there's a balance between the cost of the product and the cost of transportation. So, for big pipes, our biggest market are the neighbouring countries, and a lot of the countries in SADC, that's where we send our pipes. Our medical devices, on the other hand, we send into many more countries in Africa, as well as in Europe."* – Participant number 5.

Table 5.3 presents a list of the countries to which the participants were exporting their products. From table 5.3 it is evident that the participating firms mostly exported their products to other African countries. The only export markets located outside of Africa are the Netherlands, Germany, Hong Kong, and the UK.

Table 5.3: List of current export destinations for participating firms

Export destination per region		
Africa	**Europe**	**Asia**
Angola	Germany	Hong Kong
Botswana	Netherlands	
DRC	United Kingdom	
Egypt		
Ethiopia		
Ghana		
Ivory Coast		
Kenya		
Malawi		
Mauritius		
Mozambique		
Namibia		
Nigeria		
Tanzania		
Zambia		
Zimbabwe		

Source: Author's own compilation.

Market selection strategies are important to consider when export firms are selecting new markets for their products. Theme 2 discusses the IMS strategies of the participants and the criteria they considered when selecting export markets.

5.2.2 Theme 2: International market selection strategies of South African firms

The way in which firms choose to select new export destinations is essential for their success in international markets (see section 3.5). Evidence from the literature states that firms will benefit from following a structured market selection strategy as the performance of these firms in international markets are significantly better compared to firms following a non-systematic approach (Brouthers & Nakos, 2005; Figueroa *et al*., 2014). Choosing the wrong export market can have immense consequences, especially for smaller firms.

The results from the interviews show that all the participants followed a non-systematic approach to IMS. These findings confirm those of the literature review (section 3.5), namely that non-systematic market selection strategies are more common in developing and emerging markets (Kobrin, 1976; Yip *et al.,* 2000). However, the findings of this study contradict those of Ashley *et al.* (2022), who conducted interviews with 12 South African enterprises and found that most of the firms followed a systematic market selection strategy when selecting new export markets (see section 4.5). This contradiction might be ascribed to the fact that the firms interviewed in this study were of a different size and type than those of Ashley *et al.*'s study (see section 6.2). The firms included in the study of Ashley *et al.* (2022) were diverse in size, while the firms included in this thesis were all SMEs.

The participants in this study selected their export markets based primarily on their relationships and networks in the destination markets. A few of the participants relied on supply and demand for their products when selecting export markets. Thus, new export opportunities arise by means of enquiries within their network. In addition, market access was indicated to play a major role in the market selection process. The participants emphasised that they frequently had a demand for their products in potential export markets, but they were not able to export their products there due to the lack of market access.

Category B identifies the participants' IMS strategies and the factors they regarded as the most important when selecting new export markets for their products.

Category B: International market selection criteria

In addition to relationships, supply and demand, and market access, the participating firms referred to several other factors they considered when selecting new export markets. These IMS criteria relate to the IMS criteria identified in section 3.5.

Table 5.4 shows the IMS criteria found in the literature. The table presents country-level IMS criteria and firm-level IMS criteria. These factors were discussed in detail in section 3.5.

Table 5.4: International market selection criteria identified in the literature

Country-level IMS criteria	Firm-level IMS criteria
Market potential	Social capital
Institutional environment	Market orientation
Cultural distance	Experience
Geographic proximity	Financial resources
Political stability	
Competitive strength of the industry	
Client receptiveness	

Source: Author's own compilation.

Country-level IMS criteria consist of factors outside of the firm's control. Based on the participants' responses, the institutional environment, cultural distance, geographic proximity, and competitive strength of the industry were the most important country-level IMS criteria (see sections 3.5.2.2, 3.5.2.3, 3.5.2.4, and 3.5.2.6).

Firm-level IMS criteria include factors that are within the control of the firms, namely the characteristics of the firm itself. Based on the interviews, social capital and market orientation were cited as the most important firm-level indicators for IMS (see sections 3.5.3.1 and 3.5.3.2).

Code 3: Relationships and social capital

It was clear from the interviews that the most important factors when selecting export markets are the firms' relationships and social networks. None of the participants followed a systematic market selection strategy or applied market selection tools to find new markets. Instead, they followed a non-systematic approach and relied on their connections when selecting new export markets for their products. Most export markets were selected through already established or new business connections.

"It's not a trade secret that relationships are the best marketing tool that is available to anyone." – Participant number 10.

"You know South Africans; we base a lot of our business opportunities on relationships." – Participant number 1.

Thus, the participants' market selection strategies included personal and professional relationships. In this regard, trust is a key factor, and the participants indicated that significant time and effort are needed to maintain these relationships. They seemed to prefer doing business with like-minded people who share their values and goals.

Furthermore, export markets seemed to be selected based on the exporters' access to networks and relationships with partners in potential export markets. According to the participants, it can be challenging to gain access into markets where several of the large retailers already have established relationships. These business relationships must be built over time. Where the participants had relationships, they often also had market access. Thus, relationships formed the basis of the participants' decision where to export their products.

The importance of relationships when selecting exports markets is confirmed in the literature review and relates to a firm's access to social capital. (See section 3.5.3.1 for a detailed explanation of this concept.) Social capital is a firm-level indicator of IMS and refers to a firm's connections, networks, and ties, which can give a firm considerable advantage in terms of information on potential export opportunities (Peng, 2001). Also, social capital represents a firm's relationship with other firms in the industry and government officials. Such connections can be crucial, especially for firms that depend on government cooperation for the approval of certificates and permits for exports (see section 5.2.5.2).

Thus, the participants, by emphasising the importance of relationships when engaging in international trade, confirmed the findings of the literature, namely that social capital is an important variable to include in firm-level IMS processes.

Code 4: Market orientation

In addition to relationships and social capital, the participants regarded market orientation as an essential tool for successful market selection. Market orientation refers to a firm's capabilities of gathering information on competitors, customer current and future needs, and trends in the business environment. (See section 3.5.3.2 for a detailed explanation of market orientation). Firms that focus on close relationships with their customers and base their decision-making on market information are commonly referred to as market oriented (Slater *et al.,* 2010). Thus, to select the right export market, a firm must have good market orientation skills. These skills aid in adjusting the firm's response and behaviour to changes in international business environment. Firms that base their market selection on relations commonly deploy sales representatives who travel to potential export

countries to investigate how local operations are managed. Legal entities are set up to build a presence and a footprint in the potential market.

"There's nothing strange. It's just normal business relationships, to have a presence, we have a footprint there and you know, that's what happened." – Participant number 10.

The physical presence in the importing country gives the exporting firms valuable insight into the importing market. Firms with good market orientation skills have a better chance of surviving in foreign markets as they usually gain better knowledge of their customer base, competitors, and market conditions (Kirca *et al*., 2005). Thus, the findings of this study confirm previous research on firm-level IMS, namely that market orientation is an important factor to include in a firm's IMS strategies.

Code 5: Market access

According to the participants, great export opportunities are missed due to a lack of market access. To comply with certain regulations (non-tariff measures), government involvement and assistance is essential. This can be a time-consuming process due to inefficient government structures and a lack of adequate staff. Thus, many of the participants expressed interest in exporting their products to several potential markets; however, they faced obstacles in the form of non-compliance with the regulations and standards of the destination countries. The above discussion shows a clear connection between a firm's relationship and market access. Maintaining good relationships with government officials could help to ease the process of obtaining the documentation and certificates needed to gain access to potential export markets. Again, it is evident that relationships and social capital are essential for a firm to succeed in its export ventures (see section 3.5.2.3).

The desktop analysis investigated the market access to the potential export markets identified. A comparison was drawn between South Africa's current top five export destinations and the potential export markets. In general, it seems easier for South African exporters to be competitive in export markets in other African countries, as their transport costs when exporting to the potential markets in other continents will be much higher compared to the transport costs faced by their competitors, which are commonly located closer to the potential export markets. Furthermore, cultural similarities and geographic proximity make it easier to develop and maintain strong business relationships and partnerships, which, in turn, improve the possibility of gaining access to potential markets (see sections 3.5.2.3 and 3.5.2.4).

Code 6: Supply and demand

Some of the participants selected their export markets based on demand for their product. Thus, supply and demand play an important part in the market selection process. This is especially the case for firms in the agricultural industry. Some participants had signed agreements with the World Trade Organisation (WTO) and were informed when there was demand for their product in a country they were currently not supplying to. This process ensured that demand, and therefore export markets, arose when there was a surplus of a specific product. Similarly, the participants sometimes selected new export markets based on inquiries from customers who contact the exporters directly.

"We select with who we do business, and it's quite easy to answer you there, we select the export markets basically only on the customers demand and through relationships. It's basically supply and demand hand in hand with relationships." – Participant number 3.

Thus, the participants generally selected export markets based on where there was a demand for their products. This confirms the importance of including market potential, client receptiveness, and market orientation as indicators in firm-level IMS (see sections 3.5.2.1, 3.5.2.7, and 3.5.3.2).

Code 7: Institutional environment

As discussed in section 3.5.2.2, the institutional environment of a country may create obstacles for exporting firms when there is a lack of government action and support, or an excess of government intervention. Most of the participating firms exported their products to other African countries, which indicates that institutional factors constitute an important criterion for market selection. Therefore, the findings of the study concur with those of the literature on the importance of government support for increasing a country's export levels. According to the participants, export opportunities were missed due to lack of government support, both locally and internationally. Several of the participants had established connections with potential export markets who were willing to import their products. However, delayed processes and the lack of necessary documentation and certificates that must be signed off by government officials had resulted in the cancellation of business deals. Thus, for South African firms to successfully export their products, they must receive appropriate support from local as well as the importing country's government.

Code 8: Cultural distance

According to the Nordic model by Johanson and Wiedersheim-Paul (1975), firms tend to initiate their export venture by exporting to countries with similar cultures, languages, education, and business practices (see section 3.5.2.3). Several participants confirmed that they preferred to export to markets with similar cultures, as they generally encountered less trade barriers in these markets due to psychological similarities. Therefore, the findings of this study support previous research findings stating that cultural distance affects the export activities and the internationalisation processes of a firm (see section 3.5.2.3).

When selecting new export markets, the participants looked for like-minded people who share the same drive to grow their business. This can be easier to find in culturally similar countries, who share corporate ethics and principles. Similarly, the literature indicates that exporting firms find it easier to recruit or send staff to sort out difficulties in the import countries when those markets share a similar culture and language with the exporting market.

Code 9: Geographic proximity

As South Africa is located at the southernmost tip of Africa, it is farther away from major markets compared to most of its competitors. Owing to high transport costs and logistical issues, the participating firms preferred to export products to markets within reasonable proximity. Thus, the participating firms mentioned geographic proximity to potential new markets as one of the most important factors when selecting new export markets.

"The fuel prices that at the moment is a big challenge. We haven't had this before where the fuel prices have been going up, sort of every month, and we're talking five-six rand. Somebody's got to pay for it." – Participant number 7.

The desktop analysis corroborates the results from the interviews and the literature on geographic proximity (see section 3.5.2.4). The analysis identified considerably higher transportation costs when exporting to potential markets, particularly those situated in countries farther away compared to South Africa's current export markets. Moreover, geographic proximity relates to cultural distance, as countries within close geographic proximity have a higher probability of sharing similar cultures (O'Farrell & Wood, 1994).

Code 10: Competitive strength of the industry

The competitive strength of the industry is of great importance when selecting a new export destination. For firms to succeed internationally, it is imperative that, apart from demand for their products in the new market, they can compete with other suppliers in terms of both price and product quality. The competitive strength of the industry is, therefore, a key factor for a firm to consider before selecting a new export market.

The participants agreed that their firms would choose an export market with sufficient market size where they have a competitive advantage in producing a specific product. Thus, the findings of this study support the findings of Sakarya *et al.* (2007), namely that the competitive strength of the industry is particularly important for emerging markets and should be part of firm-level IMS processes (see section 3.5.2.6).

According to participant number 10, manufacturers of trailer equipment are highly demanded in the mining business in many African countries. Because of South Africa's proximity to these markets, trailer manufacturers have a competitive advantage over their main competitors, who are located in countries further away (e.g., China). Thus, the competitors' transport costs will be much higher compared to the transport costs for South African firms, resulting in South African firms being able to sell their products at lower unit costs compared to their competitors.

The above discussion shows that the participants utilised comparable IMS strategies. Overall, the firms almost exclusively relied on relationships when selecting their export markets. Social networks and business relations are, therefore, key components in the export firms' market selection strategies. The export firms emphasised both the importance and effort of maintaining good and lasting relationships with their clients.

In addition, supply and demand for their products was an important market selection criterion for some of the firms. Thus, export markets are developed based on customer demand for the exporter's products. Although relationships, supply and demand, and market access were the main IMS criteria of the participants in this study, many other key factors in the selection of new export markets were also mentioned. These factors include institutional environment, cultural distance, geographic proximity, competitive strength of the industry, social capital, and market orientation, all of which are confirmed by the literature (see section 3.5).

The following section discusses the participating firms' awareness of the potential markets identified, as described in phase 1 of the study.

5.2.3 Theme 3: Market awareness

To expand their export activities to new markets, exporters must be cognisant of potential opportunities on a global scale. Theme 3 of the study pertains to the level of market awareness of the participants. Thus, the interviews intended to clarify whether the participants were aware of the potential markets identified by means of the quantitative, systematic trade data analysis. A lack of awareness of potential export markets might impede economic growth and development in a country as export opportunities are missed (Ferreira *et al*., 2022). The participants' level of awareness of the potential markets is discussed in category C.

Category C: Participants' awareness of potential export markets

The results of phase 1 present a list of potential markets that could serve as promising export opportunities for South African firms. However, South African firms are currently not exporting any product to these identified markets. In the interviews, these potential export markets were presented to the participants. As mentioned above, one of the aims of the interviews was to identify whether the participating firms were aware of the potential export markets.

Codes 11, 12 and 13: Aware of all the potential export markets, aware of 1 to 2 (out of 3) of the potential export markets, and not aware of any of the potential export markets

The participants were each presented two or more potential export markets for the product they represented. Table 5.5 provides the results of the exporters' awareness of potential markets. The responses of the key personnel at the selected South African export firms indicated that four of the 11 participants were aware of all the potential export markets identified. Two of the participants were aware of some of the potential export markets but not all, while five of the 11 participants were not aware of any of the potential export markets presented.

Table 5.5: Participants' awareness of unutilised potential export markets identified

Participant number	Aware of all potential markets	Not aware of any of the potential markets	Aware of one or two of the potential markets
1	X		
2		X	
3	X		
4	X		
5			X
6		X	
7		X	
8			X
9	X		
10		X	
11		X	

Source: Author's own compilation.

"We know that there's big opportunities in South America. We've looked at the research, we know there's a huge demand for water infrastructure and for optical fibre infrastructure. And there's a limited supply of polyethylene products into the market. We are aware that South America is significantly under serviced." – Participant number 5.

Although almost half of the participants stated that they were not aware of the particular export opportunities identified, most of the participants were aware of a demand for their product in the specific region.

Based on the interviews, it becomes evident that most of the participants were not seeking new export markets for their products. They were more comfortable with continuing their export activities with their current export markets, or with similar markets near South Africa.

The following sections further discuss why the participating firms did not export to the identified unutilised export markets.

5.2.4 Theme 4: Factors causing underutilisation of export opportunities

Theme 4 addresses the reason behind the missed export opportunities of South African firms. The results from the DSM showed great export potential in markets that South African exporters were not pursuing. The interviews were conducted with South African exporters who were exporting the products in question, but to markets other than the ones identified as untapped export opportunities by the DSM. One of the aims of the interviews was to identify why the exporting firms did not export to these markets. Category D discusses the reasons put forward by the participants.

Category D: Reasons for not exporting to potential markets

The interviews revealed that finding new export markets was not regarded as an issue for the participants. However, most of the firms were reluctant to export to the markets proposed by the DSM, the main reasons being the location of the potential markets and the perceived high levels of competition in these markets. Most of the potential export markets are located far from South Africa, which results in considerably higher transport cost compared to the participants' current export destinations. In addition, South Africa is in most cases located further away from the potential markets compared to its main competitors, which leaves South African exporters with a competitive disadvantage. The following sections delve into the reasons why the participants were reluctant to export to the markets identified as untapped realistic export opportunities.

Code 14: High transport costs

One of the primary concerns of the participating firms, as indicated above, was the high transport costs involved in exporting their products to the untapped markets identified in phase 1. Most of the export firms were currently only exporting their products to countries with a relatively close proximity, namely countries located within the SADC and other parts of the African continent. The firms' response when presented with the potential markets was that the markets were too far away and that profits would be diluted due to high transport costs.

"Unfortunately, in our industry, steel in general, it's a massive market. But because it's such a massive market, it operates on fairly low margins. If you make 10 per cent on a bulk deal, that's very good. So, it's quite easy for that to be diluted by transport costs." – Participant number 2.

Several of the participating firms indicated that they would rather consider setting up manufacturing facilities in a country with a closer proximity to the potential market than to send their product all the way from South Africa.

"The value of plastic in finished form, versus the transportation costs? It doesn't work. Now, there's a radius within which it works, outside that radius, it doesn't work. And we couldn't ship there, Austria is just too far. It is better to manufacture from there. And our strategy is based on that." – Participant number 5.

The responses of the participants validate the findings of Rankin (2013) and Matthee and Krugell (2012), namely that high transport costs constitute a main concern for exporters (see section 4.2). The desktop analysis indicated considerably higher transport costs to the potential export markets identified by the DSM compared to South Africa's current export markets. Thus, the participants' concern regarding higher transport cost to the potential markets was confirmed by the results of the desktop analysis.

High transportation costs were also identified as a critical internal export barrier in the literature on firm-level export barriers (see section 3.4.1 and table 3.1). The findings of this study, therefore, confirm previous research on the importance of recognising high transport costs as a barrier to trade. The correlation between high transport costs and geographic proximity is evident, as greater distances to export markets lead to increased transport costs (see section 3.5.2.4). Hence, these findings validate prior research on the importance of including geographic proximity as an IMS indicator.

In addition, uncertainties related to fuel prices have become a major concern for South African exporters. Sudden increases in fuel prices have made it challenging for export firms to plan and estimate delivery costs. This adds to high transportation costs, exacerbating the challenge of competing with suppliers that are within closer proximity to the export market (see section 3.5.2.4).

"Often the problem is that the countries are so close to Turkey and China that I don't think we will be competitive in price, because to get the product there is very expensive. So, I think I'm glad to see that there is an opportunity. Our eyes are not closed for it. But I think the biggest hurdle will be the transportation cost." – Participant number 10.

Besides high transport costs, the levels of competition in the potential market emerged as a major concern for the participating firms. The following section presents the South African export firms' responses regarding their main competitors in the potential export markets identified in phase 1.

Code 15: Competitiveness in the potential export markets

Export-led policies are commonly viewed as a means to upsurge economic growth and development in a country (Bramdilla *et al.,* 2012). However, exporting firms face high levels of competition when entering international markets. For this reason, high levels of competition in the potential export markets were another main concern of the participating firms. Given that several of these markets were located in nearby countries that already supply similar products, it becomes hard for South African firms to be competitive regarding price and quality.

The participants' concern was confirmed by the results of the desktop analysis. This analysis examined the competitive strength of South African firms compared to their main competitors in the potential markets. Table 5.6 presents the top five supplying markets for a selection of potential export markets identified as realistic untapped export opportunities. From table 5.6 it becomes clear that South Africa's main competitors in the potential markets have closer geographic proximity than South Africa. For example, Latvia's top five suppliers of product HS 760612 are Austria, Lithuania, China, Poland, and Turkey (Trademap, ITC, 2022). Thus, Latvia is located much closer to its current main suppliers compared to South Africa.

Clearly, it is extremely difficult for South African firms to compete in terms of price when delivery costs are taken into consideration. This confirms the finding that geographic proximity, compared to main competitors, is a critical factor when selecting export markets, directly affecting the competitiveness of South African exporters in potential markets (see section 3.5.2.4).

"In Europe, there's so many steel manufacturers. So, it's very easy for a country like Latvia, to consider any one of these steel giants around them. It would be very tough for South Africa to penetrate that market." – Participant number 4.

Table 5.6: Top five competitors in potential export markets in the case study

Product	Potential export market	Top 5 competitors
HS 760612 – Plates, sheets and strip, of aluminium alloys	Latvia	Austria, Lithuania, China, Poland, Turkey
HS 080440 – Fruit, edible: avocados, fresh or dried	Romania	Germany, Netherlands, Hungary, Kenya, Spain
HS 871640 – Trailers and semi-trailers	Poland	Germany, Sweden, France, Czech Republic, Romania
HS 391721 – Rigid tubes, pipes, and hoses, of polymers of ethylene	Austria	Germany, Italy, Switzerland, Poland, Hungary
HS 110220 – Cereal flour: of maize (corn)	Slovakia	Italy, Poland, Czech Republic, Hungary, Mexico
HS 440290 – Wood: charcoal of wood other than bamboo	Japan	Philippines, Malaysia, China, Indonesia, Lao People's Democratic Republic
HS 310290 – Mineral or chemical nitrogen fertiliser	Netherlands	Belgium, France, Germany, Italy, Poland
HS 020130 – Meat: of bovine animals, boneless cuts, fresh or chilled	Croatia	Italy, Netherlands, Slovenia, Lithuania, Germany

Source: International Trade Centre (ITC) Trademap (2022).

Codes 16 and 17: Lack of subsidies and lower product quality

Some of the participants stated that they did not receive the same subsidies and other benefits as firms located in other parts of the world. Thus, it is more difficult for South African firms to compete internationally when it comes to the price of their products. A lack of subsidies relates to a lack of government cooperation (see section 5.2.5 code 22). The findings of the study confirm that a country's institutional environment is an important factor when selecting export markets (see section 3.5.2.2). South African exporters should consider choosing export markets with a similar institutional environment, as this will make it easier to compete in terms of price (see section 3.5.2.2).

Similarly, industrialised countries with advanced technology and a more skilled labour force pose challenges for South African firms in terms of competing on quality.

The interviews confirmed the IMS literature, emphasising the inclusion of a firm's financial resources as a factor when selecting export markets (see section 3.5.2.4). This is because these resources directly affect the skills level of the firm's employees and the technology they can utilise, thereby influencing the firm's level of competitiveness in foreign markets.

"We compete with the East in terms of price for products, they manufacture the same product on the same machine 365 days with a lot of subsidies and so on. Which we don't have. The West is more technical, advanced products, which makes it again difficult to compete." – Participant number 8.

Code 18: Unwillingness to change

In addition to high transport costs and challenges with price and quality competitiveness, the participants showed reluctance to consider new potential export markets. According to the interviewer's observations, most of the participants were not interested in potential markets and were not willing to explore the opportunities further. The participants seemed satisfied with their current export markets and demonstrated no eagerness to seek new export opportunities. They appeared set in their ways and showed no inclination to investigate the potential in the presented export markets for their products. They perceived the number of export barriers as too high, deeming the pursuit of these markets not sensible.

Interestingly, when talking about barriers faced in their current export markets, the participants seemed more eager to solve the issues and stated that, in most cases, they were able to find solutions to the problems through communication and by having representatives sent or permanently located in the export destinations. However, when faced with similar barriers in new potential markets, the exporters indicated unwillingness to take the same measures and risks. One potential explanation for this is the importance of relationships and social capital. The participants repeatedly stated that a considerable amount of time and effort was put into maintaining current business relationships and obtaining new connections in the export environment. Thus, the interview findings confirm the literature on IMS strategies that social capital is an essential aspect in the market selection processes of exporting firms (see section 3.5.3.1).

To summarise, the participants were reluctant to export their products to the new and untapped potential export markets identified in phase 1 of this study. According to the participants, the potential export markets are, in most cases, located too far away from South Africa, which would result in high

transportation costs. Furthermore, the participants stated that the levels of competition in the potential markets were very high, primarily due to the close proximity of these markets to the current main suppliers of the products (see table 5.6). Thus, when additional costs related to delivery and transportation are taken into consideration, it would be challenging for South African firms to compete with the current suppliers of the products in terms of price of the product. According to the participants, South African exporters in some cases received less subsides compared to their competitors, and they were not always able to produce the same level of quality products. The participants appeared unwilling to alter their approach regarding their export destinations and, in most cases, expressed a lack of interest in further evaluating the identified export markets further.

Firms usually encounter several barriers to trade when exporting their products to foreign markets. Export barriers might reduce the exporters' profits and cause delays in the delivery process. The following section identifies the export barriers faced by the participating export firms.

5.2.5 Theme 5: Export barriers

In order to reduce costs and increase their competitive advantage, an increasing number of firms are extending their business to include international markets. Exporting may result in risk mitigation, the improvement of a firm's managerial capabilities, and the enhanced utilisation of resources (Katsikeas & Skarmeas, 2003). Similarly, higher levels of competition in foreign markets might aid the exporting firms in becoming more competitive in the local markets (Lages & Montgomery, 2004).

Although there are numerous benefits associated with exporting, firms typically face various barriers to trade when exporting their products to foreign markets. These barriers are commonly categorised into internal and external export barriers (see section 3.4.1). Some export barriers are easy to overcome by applying good communication skills, cooperation, and having a presence in the export markets. Others, however, canpose great challenges and even result in potential export activities being missed or cancelled. Category E identifies the export barriers faced by the participants of this study.

Category E: Common export barriers faced by the participants

Although approximately half of the participating firms were aware of the untapped export opportunities presented to them, they were not willing to explore these markets further. Their reluctance to supplying these markets was mainly ascribed to perceived export barriers. The interviews revealed that most of these barriers were supply-side constraints. These include challenges faced by South African exporters with regard to production and the shipment of goods

from South Africa to export destinations. The following sections discuss the barriers experienced by the participants when exporting their products.

Codes 19 and 20: Internal export barriers and external export barriers

Export barriers are commonly categorised into internal and external barriers. Internal export barriers originate within the firm itself and involve characteristics of the company and the product being produced. External export barriers lie outside the control of the firm and involve macro-environment factors and characteristics of the industry and export market (Cavusgil & Zou, 1994; Tesfom & Lutz, 2006). (See section 3.4.1 for a detailed discussion of export barriers.)

When asked to identify the export barriers they face when exporting their products, the participants produced an extensive list of potential obstacles.[18] Table 5.7 presents this list of internal and external export barriers.

Table 5.7: Export barriers faced by participating export firms

External export barriers	**Internal export barriers**
Market access	Legal requirements
Bank risk	Difficulties in obtaining required certifications
Communication issues	High delivery costs
Competition law	Equipment availability
Corruption	Human errors
Cost of capital	Logistics issues
Delays	Technology barriers
Different standards in import markets	Lack of traceability
Difficulties in obtaining Letter of Credit	High turnaround time
Electricity supply issues	Insurance issues
Exchange rate risks	Lack of resources
Freight price increases	

[18] The comparison between the potential export opportunities and South Africa's current export destinations, and the information collected in the desktop analysis on shipping costs, time and cost to import assisted the author in preparing for the interviews and shaping follow-up questions.

External export barriers	Internal export barriers
Government issues	
High levels of competition	
High levels of duties	
High petrol prices	
High transportation costs	
Import requirements	
Issues related to COVID-19	
Lack of support of local government	
Natural disasters	
Payment issues and delays	
Policies	
Poor infrastructure	
Poor road conditions	
Protocol issues	
Registration issues	
Shipping line issues	
Toll fees	
Unrest in local and export market	

Source: Author's own compilation.

Many of the export barriers identified by the participants are related to issues on the supply side and are not directly linked to the potential export markets. Thus, it is important to solve the issues internally in South Africa to increase the country's export volumes. Supply-side export barriers include the following: corruption, cost of capital, electricity supply issues, lack of support from the local government, lack of resources, problems with certifications, legal requirements, and technology barriers. Table 5.8 presents the export barriers identified in the literature (see sections 3.4 and 4.4).

Table 5.8: Export barriers identified in the literature

External export barriers	Internal export barriers
High transportation costs	Lack of skills and insufficient export training
Quotas and tariffs	Need for documentation
Lack of assistance from the domestic government	Inadequate information on foreign market
Foreign government issues	Poor communication with foreign units
Uncertainties in the foreign market	Failure to stay connected with key stakeholders and foreign contacts
Foreign public attitude	Insufficient financing of export sales and marketing costs
Cultural and language issues	Logistical issues regarding packaging and transportation arrangements
High levels of competition	Challenges in providing services
Fluctuating exchange rates	Lack of productivity capacity
	Issues regarding international payment methods

Source: Author's own compilation.

Tables 5.7 and 5.8 show that several of the export barriers faced by the participants were also found in the literature, namely a need for documentation, logistical issues regarding packaging and transportation arrangements, high transportation costs, a lack of assistance from the domestic government, cultural and language issues, high levels of competition, and fluctuating exchange rates (see sections 3.4 and 4.4).

According to the participants, the most severe export barriers for South African export firms included logistical issues, lack of government support, electricity supply issues, cost of capital, and differences in standards and protocols. The participants emphasised the importance of dealing with the abovementioned barriers in a timely manner, as they were putting South African export firms at a competitive disadvantage compared to their competitors. The main export barriers identified by the participants are discussed in the following sub-sections.

Category F: Most severe export barriers

The participants named many export barriers, some more serious and harder to deal with than others. The most severe barriers according to the participants were: logistical issues, lack of government cooperation, electricity issues, cost of capital, and varying standards and protocols. Each of these export barriers are discussed in detail in the following section.

Code 21: Logistical issues

Challenges connected to logistics are common barriers faced by the exporting firms. However, many of the participating firms emphasised an increase in logistics issues starting in 2020, after the COVID-19 pandemic, including high fuel prices, poor road infrastructure, border-crossing delays, riots, and the lack of empty containers available for exporters. The pandemic has further resulted in serious issues with international shipping companies. Increased freight rates, lack of vessel capacity, unreliable shipping schedules, lack of staff, port congestion, and container shortages were all factors impacting the efficiency of product delivery. Post pandemic, freight rates have increased with more than 400 per cent on some shipping routes (UNCTAD, 2022a).[19]

"If you look at what's happening to distributional logistics at the current moment, you don't have containers available due to COVID. I think they are all stuck in harbours in different countries. Additionally, the cost of logistics has increased probably five times. Where you paid $90, you suddenly pay more than $500 for products. And that's a huge increase." – Participant number 8.

According to participant number 11, exporting to the untapped markets they were presented with was not considered an option to this firm, as their current shipping line did not ship to those destinations. Several of the participants indicated poor communication with the shipping lines and highlighted unpredictability related to sudden increases in freight prices. Participant number 1 stated that their company had considered purchasing their own vessel due to the problems related to the shipping lines. However, the shipping lines were so well-positioned that they owned most of the ports across Africa and would not let other vessels into the ports.

[19] It is worth mentioning that the interviews were conducted in 2021 and 2022, just after the COVID-19 lockdowns in many countries. The barriers identified here (code 21) might have returned closer to pre-pandemic levels since the interviews were conducted.

The desktop analysis identified higher shipping rates to the potential export markets compared to South Africa's current export destinations for the products in question. The additional costs to these markets are primarily attributable to their location: South Africa's current export destinations are mainly within Africa, while the new and untapped export markets identified are situated in other continents (see section 1.5.2).

In addition to issues related to seaborne freight, poor road infrastructure is posing difficulties for South African firms. Exporters are dependent on road conditions when transporting products to the country's ports or borders. Thus, road infrastructure is essential for economic growth and development. According to the WEF (2010, South Africa scored 4.5 out of 7 on road quality, which is similar to the scores of India (4.5) and China (4.6), but higher than the scores of Russia (3.5) and Brazil (3). When it comes to South Africa's trading partners on the African continent, the country scored higher than Botswana (3.8), Mozambique (2.3), Zambia (3.4), and Zimbabwe (2.8), but lower than Namibia (5.3). However, long transit time and delays are often experienced due to the lack of proper road infrastructure.

"Obviously, first of all, if you look at the poor road quality, all the infrastructure, are playing a big role." – Participant number 3.

According to the participants, logistical problems constitute a major barrier to exports. This supports the findings of Matthee and Krugell (2012), who emphasised the role that infrastructure improvements play in increasing a country's export levels (see section 3.4). The World Bank's Logistics Performance Index (LPI) is commonly drawn upon in discussions about the quality of a country's infrastructure. The LPI represents the logistics friendliness of a country on a scale from 1 to 7 and consists of six components, namely customs efficiency, quality of infrastructure, ease of arranging shipments, quality of logistics services, tracking and tracing, and timeliness (World Bank, 2022). Table 5.9 presents the LPI score of the current export destinations of the participating firms, as well as the LPI scores of the potential export opportunities identified in phase 1.

Table 5.9: Logistics Performance Index (LPI) score of participants' current export markets and potential export markets identified in phase 1

Current export markets		**Potential export markets**	
Country	**LPI score**	**Country**	**LPI score**
Botswana	2.96	Australia	3.77
DRC	2.38	Austria	3.99
Egypt	2.95	Bosnia and Herzegovina	2.76
Ethiopia	2.40	Bulgaria	3.00
Germany	4.19	Chile	3.28
Ghana	2.60	Costa Rica	2.74
Hong Kong	3.96	Croatia	3.12
Ivory Coast	2.89	Estonia	3.30
Kenya	2.93	France	3.86
Malawi	2.69	Germany	4.19
Mauritius	2.65	Greece	3.19
Mozambique	2.59	Greenland	-
Namibia	2.73	Hungary	3.41
Netherlands	4.07	Japan	3.99
Nigeria	2.59	Latvia	3.02
Tanzania	2.88	Lithuania	3.20
United Kingdom	4.01	Macedonia	2.62
Zambia	2.49	Maldives	2.63
Zimbabwe	2.17	Malta	2.94
		Montenegro	2.65
		Netherlands	4.07
		Poland	3.50
		Puerto Rico	-
		Republic of Korea	3.65
		Romania	3.10
		Serbia	2.83
		Slovenia	3.29
		Spain	3.78
		Sweden	4.07

Current export markets		Potential export markets	
Country	**LPI score**	**Country**	**LPI score**
		Tunisia	2.59
		United Arab Emirates	3.89
		United States	3.92

Source: World Bank (2022).

With an LPI score of 3.51, South Africa is ranked higher than all the current export destinations located on the African continent. Export destinations with higher LPI scores than South Africa include Germany (4.19), the Netherlands (4.07), Hong Kong (3.96), and the UK (4.01).

Table 5.9 also presents the LPI scores of the untapped potential export markets identified in phase 1. Most of the potential export markets have higher LPI scores compared to the participants' current export destinations. This indicates that the participating firms might experience less logistical issues when exporting to the potential export markets compared to their current export destinations.

Thus, table 5.9 shows that the potential export markets mostly score higher than South Africa's current export destinations. South Africa's current export destinations for the identified products are in most cases to countries located in Africa, where the infrastructure quality is low compared to other parts of the world. Thus, the LPI scores align with the interview findings, namely that issues related to logistics are some of the most severe export barriers faced by South African firms when exporting to their current destination markets.

In addition to poor road conditions, the border crossings are often a big obstacle for the exporting firms that are supplying to neighbouring countries. Inadequate border management, poor and outdated infrastructure, and vehicle congestion are all factors that increase the cost and time of intra-regional trade. According to the participants, high toll fees at the borders result in financial losses for exporters unless they increase the price of their products. This supports the findings of Leonidou (2004) and Matthee and Krugell (2012) (see section 4.4). Strikes at border posts are also common, resulting in additional delays and congestions at the border posts. According to the participants, additional costs are laid on the exporting firms as they frequently send additional staff to the borders to negotiate their way through the various processes.

"If you go to the border posts, in some cases, there is queues for over 40 kilometres. The turnaround time to get a vehicle out of Durban to let's say, for instance, Harare and back to Durban to load again, in some cases is five to six weeks." – Participant number 3.

Besides shipping line problems, poor road infrastructure, and border delays, unrest in the country negatively affects exports, for instance, deliveries being delayed or cancelled due to riots on the main transport routes. The participants identified unrest in the import markets, as well as within South Africa, as an important barrier to trade. Thus, the findings of this study concur with the literature that political stability is an essential factor to include in a country's IMS processes (see section 3.5.2.5).

"Often, we lose contracts with the rest of the world because we can't always guarantee delivery. Most of the goods are transported by road because our rail system doesn't work. But they're burning trucks on the roads, and they are blocking the entry to Durban. All those factors have an impact on your reliability to deliver the product on time." – Participant number 5.

It becomes clear from the above discussion that issues related to logistics and poor infrastructure are pertinent concerns for the participating firms. They faced additional cost due to delays, lack of available containers, riots, and high toll fees at the borders. The following section discusses the interview findings on issues related to the local government.

Code 22: Lack of government cooperation

To sufficiently increase South African export activities, export firms need support from the local government. However, the participating firms generally experienced problems with the South African government when exporting their products. These issues include corruption, mismanagement, human errors, and lack of essential staff.

For an export firm to ship its products, a declaration needs to be made by the South African government, stating that the firm fulfils or adheres to the standards required by the destination country. Several of the participants reiterated that they had been struggling with the South African government for a long time. Some ascribed the issues to the simple fact that government is understaffed, while others refer to an unwillingness from government when it comes to the signing of necessary documentation.

These responses confirm previous findings on export barriers, namely that problems with documentation are an internal barrier to trade (Anil *et al.,* 2016; Shoham & Albaum, 1995) (see section 3.4.1 and table 3.1). Institutional voids within South Africa could undermine the competitiveness of the country's export firms in foreign markets as importers in more developed markets may be less tolerant of potential delays arising from the challenges faced by South African exporters. Thus, the findings of the study confirm the importance of taking the institutional environment into consideration when selecting export markets (see section 3.5.2.2).

"Industry is roaring, we would like to export, we're ready to go. But from the government's perspective, they see some problems with signing off on the certificates. And due to the fact that our government do not want to sign off, we've got no access to these markets, and we can do whatever we want, we can load, we can arrange, we got the agreements, but at the end of the day, if the certificates are not signed off by our government, then we take our products nowhere. So, our biggest constraint at this stage is the lack of government's cooperation in export." – Participant number 9.

The participating firms mentioned repeatedly that several of their export activities had been cancelled due to lack of support and cooperation from the government. According to one of the participants, diplomatic meetings between South Africa and potential export destinations had been cancelled by the South African government. One of the participants referred to tension between the red meat industry and the Directorate of Animal Health in South Africa, creating challenges in getting government to sign off on the certificates.

"We've got a lot of markets, but the export hiccup comes with certification from our government." – Participant number 6.

Adequate cooperation and support from the South African government are imperative for firms to expand their export levels and for new firms to enter foreign markets. Therefore, prioritising policies that support new and existing export firms is crucial for South Africa to increase its export activities. The following section presents the findings on the issue of unreliable electricity supply.

Code 23: Electricity supply issues

South Africa's electricity crisis has had severe repercussions for the country's export firms. Export deals have been lost because firms were not able to deliver products on time due to power outages. With almost 98.5 per cent of South African firms being SMEs, they are particularly susceptible to financial losses (Langa & Govender, 2019). Manufacturing firms, in particular, have incurred substantial expenses, as power outages disrupt the production process and, consequently, damage raw materials and machinery.

Power disruption also has a negative impact on a firm's export performance and competitiveness in foreign markets (see section 3.4.1). Exporters in countries with power disruptions often face higher production costs, the risk of damage to products that are partially completed, additional costs related to the disposing of or recalling of damaged products, and financial losses caused by production foregone (Gupta & Singh, 2021). According to Gupta and Singh (2021), these firms have a 9 to 13

per cent lower probability of engaging in exports. Thus, a negative correlation exists between power outages and a firm's willingness to export (Gupta & Singh, 2021).

"About 80 to 85 per cent of the plastics industry are small-medium companies. In the plastics industry, our process is very energy dependent as we melt the plastics to form a product. If there's load shedding, it's not just switching on the machine and continue producing it. Any load shedding for us has a major impact. It's not like a computer or a light switch that you switch on and you carry on working. It has a major impact in terms of the production process." – Participant number 8.

The Electricity Transition Index (ETI) serves as a benchmark for the performance of the energy systems of 115 countries (WEF, 2020). South Africa had an ETI score of 42.7 per cent in 2020 (WEF, 2020). The desktop analysis of this study compared the ETI scores of South Africa's current export markets with the potential export markets included in this study. Table 5.10 presents the ETI scores of the current export destinations of the participating firms and the ETI scores of the potential export markets identified in phase 1. The current export destinations are mostly other African countries, which have similar or lower ETI scores than South Africa.

From Table 5.10 it is clear that the ETI scores of the potential export markets are considerably higher than the ETI scores of the current export markets of the participating firms. The participants' perception that power disruptions serve as a major barrier to trade was thus confirmed by the finding of the desktop analysis. South African exporters may be at a disadvantage competing in markets with higher ETI scores. Importers will not have any context or understanding of the production challenges faced in South Africa due to electricity problems, and the possible delays caused by them.

Table 5.10: Electricity Transition Index (ETI) score of current export markets

Potential export markets		**Current export markets**	
Country	**ETI score**	**Country**	**ETI score**
Armenia	54.90%	Angola	**-**
Australia	59.70%	Botswana	53.90%
Austria	70.50%	Congo	**-**
Bosnia and Herzegovina	43.20%	Egypt	49.10%
Bulgaria	54.20%	Ethiopia	45.90%
Chile	61.10%	Germany	63.90%
Costa Rica	61.90%	Ghana	53.20%
Croatia	59.70%	Hong Kong	-

Potential export markets		Current export markets	
Country	**ETI score**	**Country**	**ETI score**
Estonia	63.30%	Ivory Coast	-
France	68.70%	Kenya	50.60%
Germany	63.90%	Malawi	-
Greece	55.00%	Mauritius	-
Greenland	-	Mozambique	42.00%
Hungary	60.70%	Namibia	53.60%
Japan	63.20%	Netherlands	68.00%
Latvia	64.90%	Nigeria	40.30%
Lithuania	65.10%	Tanzania	47.20%
Macedonia	-	United Kingdom	69.90%
Maldives	-	Zambia	45.70%
Malta	60.40%	Zimbabwe	42.60%
Montenegro	62.20%		
Netherlands	68.00%		
Poland	52.90%		
Puerto Rico	-		
Republic of Korea			
Romania	59.90%		
Serbia	44.30%		
Slovenia	63.10%		
Spain	62.90%		
Sweden	74.20%		
Tunisia	48.20%		
United Arab Emirates	54.00%		
United States	60.70%		

Source: WEF (2020).

In addition to unreliable electricity sources, South Africa's electricity prices are relatively high. This puts South African export firms at a further competitive disadvantage, as they have to contend with higher production costs than their competitors.

"And the reason why steel is so expensive on this side is just because electricity and labour are very expensive. Electricity is like 50 to 60 per cent of the cost of turning raw material into finished products. It's a ridiculously electricity expensive process. And as an example, China has the cheapest electricity in the world from what I can understand." – Participant number 4.

Khobai *et al.* (2017) analysed the relationship between electricity prices and economic growth in South Africa. They found that a 1 per cent increase in the price of electricity results in a decline in economic growth of 0.036 per cent. Thus, there is a negative relationship between electricity prices and economic growth. This emphasises how important efficient and affordable electricity supply is for South Africa to reach adequate economic growth levels.

The following section presents the issues highlighted by the participants regarding cost of capital.

Code 24: Cost of capital

A big concern for the participants in this study was the cost of capital. According to Krugell and Matthee (2009; 2010), access to finance is viewed as an important determinant for exports (see section 4.4). Most of the participating firms were SMEs, lacking the necessary capital to expand their business. The Weighted Average Cost of Capital (WACC) in South Africa was 12.32 per cent in December 2022 (Standard Bank, 2023). This is relatively high compared to the cost of capital in the US of 5.14 per cent and in the UK of 6.8 per cent (Standard Bank, 2023). Thus, the cost of capital in South Africa is high compared to other markets, which puts South African export firms at a competitive disadvantage.

"I have to factor the issue of cost of capital into my price, which is three, four times higher than what overseas colleagues are facing. Then it makes my unit cost higher. You are facing high cost of capital in South Africa. So those are the real issues. And that's why South African companies, in most instances struggle on international markets." – Participant number 5.

Higher cost of capital must be compensated for by charging higher unit prices to end customers. If the elevated unit price cannot be justified by delivering higher-quality products, South African export firms will not be able to compete with their foreign counterparts selling the same products at lower prices. Consequently, the cost of capital directly affects the competitiveness of South African exporters. High levels of competition have also been identified as an external export barrier in the literature (see section 3.4.1). Specifically, Rankin (2013) established that foreign market competition is one of the main barriers to trade for South African firms (see section 4.4). Thus, the findings of the

study support the findings of the literature, namely that high levels of competition constitute a main barrier to trade.

The following section discusses the difficulties faced by the participants with regard to variations in the product standards and protocols that must be adhered to before their firms can send products to importing countries.

Code 25: Varying standards and protocols

For the products included in this study, varying standards and protocols was singled out as a barrier by the plastics and agricultural industry. Exporting firms must ensure that they have the correct documentation to prove that their products adhere to required standards and that the necessary protocols are in place before their products can be sold in export markets. For example, the European Union (EU) imposes specific criteria for imports that South African firms must meet. However, according to the participants, South Africa lacks EU-accredited laboratories or testing facilities. Therefore, South African exporters are compelled to send their products to European laboratories for testing, which is a costly and time-consuming process. In addition, exporters run the risk of product contamination or damage in transit, resulting in the product being declined and sent back. This necessitates a repetition of the process, at further costs to the exporters.

"In South Africa, we don't always have accredited laboratories, or testing facilities that are EU accredited. I think that's one of the biggest barriers that we are confronted with in terms of laboratories and having facilities here that is accredited to certify products to be EU specific." – Participant number 8.

According to the participants, one of the main export barriers they face are phytosanitary measures and the processes they must go through to distribute fresh products. Certificates affirming that the required phytosanitary measures are in place, are essential in the agricultural sector for the export of certain crops to destination markets. These certificates mandate that the exporting country declares compliance with the importing country's Department of Agriculture's rules and regulations, confirming that the crop is free from specific diseases and pests.

However, the process of receiving these certificates can be challenging and time consuming. The pest management processes must be conducted through government-to-government channels. Thus, exporters need the cooperation of the South African government to access the documentation needed for exporting their products to the destination markets. However, according to several

participants, obtaining this documentation from the government can be challenging due to notably slow processes (see section 5.2.5. code 22, for a discussion of the lack of government cooperation).

"There's a pest management process, that is government to government led. And the problem is just processes is very slow, to answer your questions of why we don't have market access, processes are extremely slow. All the communication according to the WTO and structures of these phytosanitary market access applications needs to be government to government." – Participant number 6.

In addition to phytosanitary measures, South African exporters need to consider that many countries do not want to import crops containing Genetically Modified Organisms (GMOs). South African farmers are currently producing genetically modified soybeans, maize, and cotton.

"In terms of barriers, we have the non-GMO issue and GMR genetics, genetically modified and non-genetic modified. Unfortunately, with the state of the South African crops, probably 95 per cent of South Africa's maize is GMO. Then you have some countries that are wanting non-GMO products. So, you start getting limited and it's start getting a challenge. Because when you are exporting, for example, now out of Durban, there's no way that you can put a non-GMO maize through the hub of the same facility because it's got to be isolated, kept independently. At the moment we just don't supply non-GMO." – Participant number 7.

Similarly, in the red meat industry, South African cattle are commonly raised by using Hormone Growth Promotants (HGPs). The sale of meat which contains growth stimulants is banned in the EU. Thus, meat must be declared HGP free by the EU Cattle Accreditation Scheme (EUCAS) before it can be exported into Europe. These restrictions make the European market unavailable for South African meat exporters.

"I think our biggest constraint with regards to export is the way that we breed or the way that we grow our animals within the feedlots. Because we do feed them growth stimulants. I think that is an inhibiting factor to many of the first world countries." – Participant number 9.

In addition, South African red meat exporters frequently experience challenges due to outbreaks of foot-and-mouth disease.

"One of the biggest issues is foot-and-mouth disease. The problem with foot-and-mouth disease is that it's a political disease. Internationally, if you test positive for foot-and-mouth disease, then you are almost in that persona non grata type of situation where they don't want anything to do with you." – Participant number 9.

Varying standards and protocols in the potential export markets was mentioned as a major export barrier by the participants. These results support the findings of Rankin (2013), namely that regulations in the import market act as an important export barrier for South African firms (see section 4.4). Rankin (2013) also identified trade facilitating reforms, such as the harmonisation of trade regulations, as a measure to improve the competitiveness of South African firms.

The above discussion addressed the issues confronted by the participating firms when exporting their products. The findings show that the participants experience similar export barriers. The primary export barriers identified by the participants are logistical issues, a lack of governmental support and cooperation, electricity concerns, cost of capital, and varying standards and protocols.

5.3 Relationship between codes

The coding process revealed a network of relationships among several of the codes or themes. The relationships among the codes are referred to as links and are illustrated by using the network view option in ATLAS.ti. Codes can be linked to each other and to more than one theme.

As discussed by Friese (2014:222), the links in ATLAS.ti are classified as follows:

- "Is a part of": A relationships where one code complemented or strengthened other codes or themes.
- "Is a property of": A relationships where a code was essential to other codes or themes.
- "Is associated with": A relationships where not enough information could be derived from the data to indicate more specific relationships.
- "Is a cause of": A relationships where one code was identified as the cause of another code or theme.
- "Contradicts": A relationships where one code contradicted other codes or themes.

The relationships among the codes are displayed in figure 5.2.

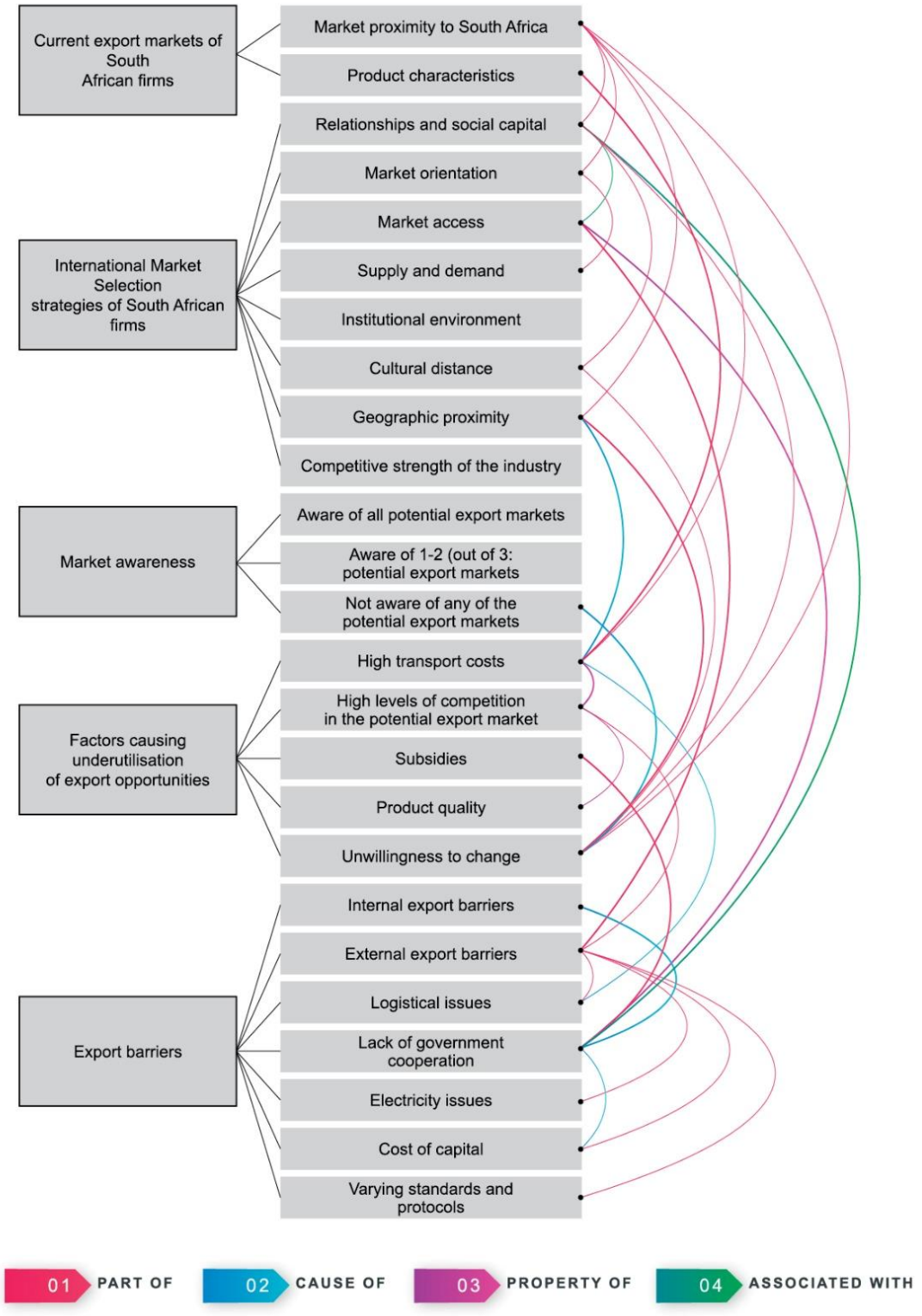

Figure 5.2: Relationships among codes

Source: Author's redraw from ATLAS.ti (Friese, 2023).

From figure 5.2 it becomes evident that there are numerous links among the codes and themes identified in the study. According to Friese (2019), exploring the links among the themes and codes helps to strengthen the theory development process.

A clear link was observed between South African exporters' current export destinations and market proximity. The participants mainly exported to neighbouring countries. The characteristics of the product being exported affected the choice of export markets, as large and heavy products were exported preferably over shorter distances, while smaller, high-value products were exported to destinations located further away. Thus, a link was found between current export destinations and product characteristics.

The IMS of the participants was strongly linked to relationships and social networks. New export markets were mainly identified and chosen based on relationships, connections, and business ties of the exporters. Relationships can therefore be linked with market access and market awareness, as exporters relied on their relationships to gain access into new markets. Relationships also play a vital role locally, because having networks within the local government might ease the documentation process of international transactions. Similarly, relationships and social networks are linked with a lack of cooperation of local government, as exporters without strong internal relationships might struggle more to gain access to required documents and protocols. Furthermore, lack of government support was interlinked with gaining subsidies and market access. These connections can be explained by the need for government cooperation in the process of gaining subsidies and access to potential export markets.

Preference for existing export relationships and networks, together with an unwillingness to change, was prominent among most of the participants. In general, the exporters seemed uninterested in exploring new export opportunities, with most business decisions based on relationships, social networks, and trust. The participants showed a preference for conducting business with similar and like-minded people. Thus, their reluctance to change can be attributed to cultural distance, geographic proximity, and social capital. Similarly, exporters who resist changing their current export behaviour are less likely to be aware of new markets, illustrating an interconnectedness between unwillingness to change and market awareness.

As seen above, high transport costs are strongly linked to geographic proximity and logistical issues. Transport costs will increase when exporters supply to destinations situated further away. Poor road infrastructure and delays at international borders will also upsurge the costs of transportation. High transport costs are linked to high levels of competition in the potential markets. Owing to high

transport costs, South African exporters are forced to sell their products at a higher unit price. This means they are less attractive in the export market compared to competitors who are located more closely and who can sell similar products at a lower price.

5.4 Discussion of results

As previously mentioned, exports are important for economic growth and development, especially in a country that is grappling with high unemployment rates, poverty, and low economic growth levels such as South Africa (Viviers, Cuyvers, Steenkamp *et al.,* 2014) (see section 1.1). According to the NDP, South Africa's export rates are set to increase by 6 per cent annually by 2030 (NPC, 2013). To reach these goals, measures must be taken within the export sector. The following section discusses the main findings of this study and measures that can be taken to increase the export levels of South African firms.

Industries within a country rely on support and cooperation from government to be able to increase export levels (see section 5.2.5.2). However, one of the main barriers identified in this study relates to poor cooperation and communication between exporters and local government. Exporters mentioned extensive delays and occasional tardiness in providing necessary documentation for international transactions, leading to orders not being delivered on time, or not exported at all. These implications can result in the loss of international contracts. Thus, better cooperation between exporters and the government, along with the simplification of export regulations, is crucial for increasing South Africa's export levels.

The exporters interviewed in this study based their export market selection on relationships and social networks (see section 5.3.2). According to them, relationships are the gateway to gaining access to new export markets. Thus, social networks and relationships are key factors in gaining assessto potential markets. The exporters emphasised the importance of trust when it comes to their business relationships and the great deal of effort that is put into gaining and maintaining strong and sustainable business relations. According to the participants, the best way to deal with challenges in export markets is by having representatives permanently located in these markets or sending representatives to these markets when needed. The representatives know the market and are often better equipped to deal with issues related directly to the foreign market. Thus, for South African exporters to increase their export levels, they need support not only from the government, but also from their networks and relationships in the destination countries.

Several of the barriers identified by the exporters relate to issues within South Africa. Unreliable electricity supply leads to the destruction of materials in the production process and causes exporters to struggle with timely product delivery (see section 5.2.4, code 23. The damage to materials and equipment is costly and presents financial challenges, especially for smaller firms. For this reason, South African firms become less competitive with regard to pricing, given production losses and the high costs of electricity.

To maintain or increase current levels of exports, the South African government must find solutions to the electricity crisis. For example, investments in solar systems could help maintain the production of goods intended for international markets. However, many producers will not be able to bear the substantial costs of such investments. To alleviate this, the government might consider providing financial support to exporters specifically for investments in solar systems.

Poor infrastructure, border delays, and high entry fees contribute to the high cost and time required to transport products to export markets in neighbouring countries or to ports for further shipment (see section 5.2.5, code 21). Investments in rail transport, road infrastructure and border facilities would enhance transport efficiency and border-crossing practices, which might reduce transport time and costs considerably. The participants stated that South African exporters face high cost of capital compared to their competitors in international markets. Lowering the interest rate on loans for South African exporters could enhance their competitive advantage in foreign markets. Reducing the cost of capital might also encourage more South African producers to explore and engage in export activities.

A major barrier to trade, as mentioned by the participants, is the differences in standards and protocols (see section 5.2.4, code 25). For South Africa to export to international markets, the products in question must adhere to the safety and health standards of the destination countries. According to the participants, South Africa lacks the required testing laboratories, and products must be shipped to other countries for testing – an expensive and time-consuming process. The establishment of such testing facilities in South Africa could potentially save exporters considerable time and money.

Furthermore, GMO and growth hormones are commonly used in South African food production. Since these procedures are banned in several countries, the potential export markets for products containing GMO and HGPs are limited, particularly European markets. To broaden the range of potential export markets for South African agricultural products, local producers might consider

changing their production methods by eliminating the use of GMO and HGPs in food destined for export markets.

5.5 Summary and concluding remarks

This study collected primary data by conducting semi-structured interviews with key personnel in South African export firms. The conversations with the participants gave important insights into exporters' perceptions and the way they evaluate potential export markets. To ensure the rigour and validity of the study, triangulation was applied by comparing the interview findings with the findings of the desktop analysis and literature review. The interviews revealed the IMS strategies of the participating firms, as well as the export barriers they viewed as the most severe obstacles to international trade.

The responses of the participants were remarkably similar, also across industries. The interviews revealed that participants did not regard finding new export markets to be an issue. Many of the export firms were exporting solely to African countries and were not interested in exploring opportunities outside of Africa. The participants relied primarily on relationships and supply and demand when finding new export destinations. Thus, the participants followed a non-systematic market selection strategy.

When presented with the untapped export markets identified in phase 1, the exporters showed reluctance to explore new export opportunities. They cited price and quality competitiveness, and high transport costs as potential challenges for exporting to the particular markets. The findings of the desktop analysis confirm these findings from the interviews. Since most of the potential export markets are located further away from the participating firms' current export destinations, the transportation costs would be considerably higher to the potential markets. Furthermore, the main competitors in the potential markets are located much closer to the markets compared to the participating firms. This supports the participants' concern regarding high transport costs and disadvantages in terms of competitiveness in the potential export markets.

The participants also stated that, in some cases, they received fewer subsidies compared to their competitors, and they faced challenges in producing products of the same quality due to lack of adequate technology. Overall, the participants appeared reluctant to further investigate the presented export opportunities because of the abovementioned export barriers, although they seem to be finding ways to address numerous barriers in their current export markets.

Many of the export barriers highlighted by the participants are among those identified in the literature and the desktop analysis. One of the primary barriers mentioned by the participants was related to logistics issues and the availability of electricity. Most of South Africa's current export destinations, for the products concerned, are located in Africa. Thus, the LPI and ETI scores of the current export destinations are lower compared to the potential export markets identified by the DSM, which are located in Europe, Asia, and South America.

According to the participants, the COVID-19 pandemic has had a severe impact on international trade, and export firms are still trying to recover from losses of export volumes. Lack of available containers for exporters, increases in freight rates, port congestion, and staff shortages are all factors contributing to a decline in export activities, price competitiveness and potential profits for South African firms.

Based on the conversations with the participating export firms, the factors causing the underutilisation of export opportunities for South African firms include: (i) tardy and inefficient government support; (ii) load shedding and high electricity prices; (iii) poor road, port and border infrastructure; (iv) logistical challenges relating to container availability; (v) high freight rates; (vi) shipping line schedule insecurities and delays; (vii) high costs of capital; and (viii) difficulties in adhering to standards and protocols relating to health and safety.

To increase their export activities, South African export firms require measures to address the abovementioned issues. However, the primary responsibility for implementing these measures lies with the government and policymakers, given that the most pressing export barriers are beyond the control of the firms. Better communication and cooperation between the industries and the South African government can result in more efficient strategies when dealing with certificates and protocols needed for exports. Improvements in road, port and border infrastructure must be prioritised, as efficient transport of products are essential for timely delivery and the elimination of additional costs resulting from delays and congestions. Many export barriers are faced in international markets and cannot be controlled domestically. However, the government should provide support that can increase exporters' efficiency. This can improve their financial situation locally, and result in South African exporters becoming more competitive in foreign markets.

CHAPTER 6: SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

6.1 Introduction

The aim of this study was to investigate the reasons why South African firms, successful exporters in other regions, refrain from exporting to markets identified as having untapped export potential. To best achieve this aim, the research followed a multi-faceted approach, which included a literature review, desktop analysis, and interviews. Semi-structured interviews were conducted with key personnel in South African export firms to collect primary information on how these firms select export markets and the barriers they encounter when exporting their products.

The study found that primary information is limited on the barriers that South African export firms experience in their IMS practices. In light of high levels of poverty and unemployment in South Africa, coupled with the country's export underperformance, the study fills a critical gap in the literature by investigating these barriers. The study also revealed that South African export firm-level research has predominantly relied on cross-sectional survey data to investigate export firm characteristics. By collecting primary data through interviews with export firms, this study contributes to the literature, providing a deeper understanding of the factors that drive South African export firms' decisions, behaviour and performance. Moreover, the study proposes targeted and practical policy recommendations to directly address the needs of exporters. This research, therefore, contributes to the government's goals for export-led growth.

Chapter 6 consists of a summary of the findings, conclusions, and recommendations. Section 6.2 summarises and concludes the study. Recommendations are presented in section 6.3, and the contributions of the study are provided in section 6.4. Section 6.5 identifies the limitations of the study and section 6.6 presents suggestions for further research.

6.2 Summary of results and conclusions

South Africa is struggling with low economic growth and high unemployment levels. Increasing exports is a common strategy to enhance a country's economic growth and development. Although several export opportunities exist for South African export firms, they remain untapped (see section 1.1.2). To increase South Africa's export levels, it is essential to understand the underlying factors causing this underutilisation of export potential. The processes followed to reach the objectives of the study are presented in figure 6.1.

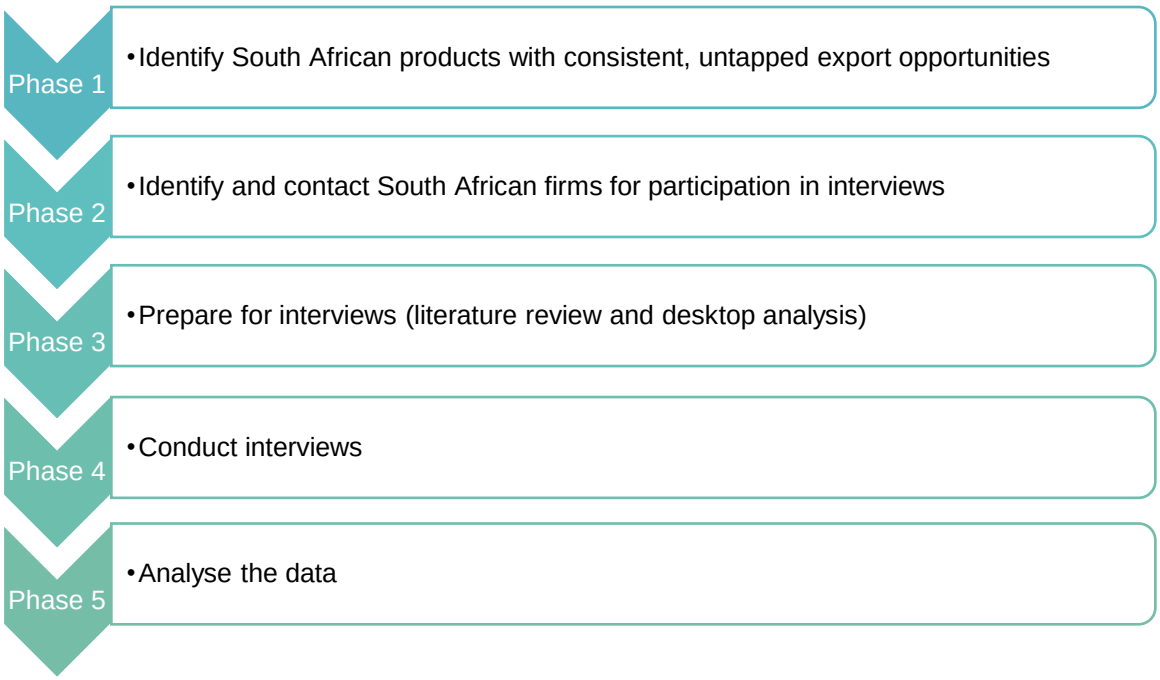

Figure 6.1: Processes followed to reach the research objectives

Chapter 2 of the thesis presented the research design and the methodology followed to reach the study objectives. The study followed an interpretivist paradigm and adopted a relativist ontology and a subjectivist epistemology. Within an interpretivist paradigm, a naturalist methodology is usually assumed. This paradigm is associated with qualitative research methods as the interpretivist researcher collects data by applying multiple data sources and methods (Carr & Kemmis, 1986). Given the selected paradigm and the ontological and epistemological stance of the study, the most suitable research design was determined to be a single embedded case study (Yin, 2014). The validity and rigour of the study were enhanced through triangulation and by ensuring the quality of the case study design. This was achieved by adhering to Yin's (2014) criteria: construct validity, internal validity, external validity, and reliability (see sections 2.5 and 5.2).

The research process followed the phases presented in figure 6.1. The participants for the interviews were selected by means of purposeful sampling. A systematic market selection process was used to identify South African products with consistent, untapped export opportunities in two or more destination markets (phase 1). The study applied filter 2 and filter 3.1 of the DSM to identify the target population for the semi-structured interviews. The size and growth of import demand were analysed in filter 2, while filter 3.1 was used to evaluate the levels of competitor concentration in the potential target markets (phases 1.1 and 1.2). The qualifying product–country combinations were further scrutinised based on South Africa's core competency in producing and exporting the products

(RCA>=1 and RTA>0) (phase 1.3). Actual trade was also considered to identify the product–country combinations with large/growing and unconcentrated demand (phases 1.1 and 1.2) matched with export supply capacity (phase 1.3), where actual trade is presently zero (untapped). Consistency was a requirement, necessitating that all of the abovementioned criteria were met in at least three of the five years under investigation, with one in the most recent two years, for which the international trade data were available at the time of the analysis. Products with two or more unutilised, consistent potential export markets served as the target population for this study, resulting in 42 product–country combinations and 19 different products (phase 1.4).

Potential participants for the semi-structured interviews in this study were identified by using the Kompass application on the ITC Trademap website. Managers and key personnel at South African export firms were contacted through telephone calls and emails (phase 2). In total, 67 emails were sent, and 45 calls were made to reach those participants who were willing and available to be interviewed.

A literature review on firm-level IMS and export barriers was conducted to prepare for the interviews (phase 3.1). A desktop analysis was performed to collect information on South Africa's level of market access to the potential target markets (phase 3.2). The insights gained from the literature review and desktop analysis were used to design the interview questions and prepare for potential follow-up questions.

The interviews with key personnel in South African export firms were conducted to collect primary data on the firms' IMS strategies, the export barriers they face, and the reasons why they are not exporting to the untapped export markets identified in phase 1. The interviews were conducted online on Microsoft Teams, and each lasted between 45 and 60 minutes. The participants consisted of managers and other key personnel with adequate knowledge of the IMS strategies and export operations of their firms. Pre-constructed, open-ended questions were asked on the topics of IMS, export barriers, and why certain export opportunities are not exploited (see addendum B). In total, 11 in-depth interviews were conducted. Data saturation was reached after the seventh interview. Valuable, first-hand information of South African export firms' IMS strategies, export barriers, and missed export opportunities were gathered by means of the interviews.

A thematic analysis was performed after the interviews were transcribed (phase 5). The results from the interviews were scrutinised and compared with the findings of the desktop analysis and literature review. The data were coded and grouped into categories and themes representing the central findings of the study.

The thematic analysis followed Creswell's (2014) six-step linear, hierarchical approach. The data sources included a literature review, desktop analysis, and the interviews. Thus, triangulation was applied to ensure the validity and rigour of the study.

Chapter 3 presented the literature on firm-level international trade theory and market selection, providing a foundation for a deeper understanding of the export behaviour of South African firms. Research on the characteristics of export firms found that these firms differ from non-exporting firms in various ways. For example, exporting firms are larger, more productive, more capital intensive, pay higher wages, and have more skilled workers compared to firms supplying to domestic markets only (Bernard & Jensen, 1995; Bernard, Redding *et al.,* 2007; Eaton *et al*., 2011; Wagner, 2001). A productivity advantage is commonly seen in exporting firms, which suggests self-selection into exporting (Eliasson *et al.,* 2012). Engaging in international trade may improve a firm's financial position as exports can result in increased funds and revenues. This, in turn, encourages reinvestments and growth.

However, a number of export barriers may affect a firm's performance internationally. These barriers to trade are typically classified into internal and external barriers. Internal barriers include a firm's capabilities, resources, export capacity, and the availability of foreign market information (Anil *et al*., 2016). External barriers arise from the environmental circumstances in which a firm find itself and are factors beyond the firm's control. External barriers are broadly classified into governmental, environmental, procedural, and task barriers.

To succeed in international markets, a firm needs to select the appropriate export destination. Extensive literature exists on IMS; however, findings do not agree on which IMS criteria are the most pertinent for international success. In general, firms follow either a systematic or a non-systematic approach to IMS. A systematic IMS approach consists of a thorough analysis of the potential markets, which includes a formal and rational decision-making process where various selection criteria are analysed (Papadopoulos & Denis, 1988). In contrast, a non-systematic approach entails a more incoherent attitude towards the market selection process (Brewer, 2001).

The importance of following a strategic market selection process is emphasised by the authors of traditional IMS models. In other words, firms that follow a systematic IMS approach are more likely to succeed in international markets compared to those who follow a non-systematic IMS approach (Dalgic & Heijblom, 1996). Nevertheless, many firms still follow a non-systematic IMS approach, especially those located in developing and emerging markets. The costs involved in following a structured IMS approach and the difficulties related to empirical testing are the main reasons why

firms choose to follow a non-systematic IMS strategy (Brouthers & Nakos, 2005). Although systematic IMS methods are more costly to conduct compared to non-systematic methods, the costs of selecting the wrong export market are far greater than the costs of following a systematic IMS approach.

IMS is broadly divided into country-level and firm-level indicators. Country-level indicators for IMS include market potential, institutional environment, cultural distance, geographic proximity, political stability, competitive strength of the industry, and client receptiveness. Firm-level indicators for IMS include social capital, market orientation, experience, and financial resources.

South Africa grapples with low economic growth and elevated unemployment levels. Recognising exports as a creator of economic growth and development, the South African government is focusing on boosting the country's export levels. To achieve this goal, it is essential to understand how South African export firms behave. Such insights can assist firm managers and policymakers in optimising the internationalisation processes of South African firms. However, the current literature is limited due to a lack of firm-level data. Chapter 4 provided a literature review of the available research on the characteristics of South African export firms, their IMS strategies, and the barriers they face when exporting their products to foreign markets.

Although the literature on the behaviour of South African export firms has increased over the years, it is still limited as sample survey data were applied in most of the studies. Current evidence shows that South African export firms are larger, more productive, pay higher wages, and require more skilled workers compared to non-exporters. African firms are also heterogeneous regarding their export markets, export dynamics, export volumes, and number of export destinations (see section 4.3).

The literature further indicates that South African export firms face similar barriers when exporting their products. Thus, export barriers are a large obstacle for South African firms when engaging in international trade. For South African firms to increase their export levels, these barriers need to be identified and managed in a timely manner to minimise their negative implications. According to the literature, the most pressing export barriers include fluctuating exchange rates, high transport costs, high levels of competition, marketing costs, and language (Rankin, 2013). This study contributes to the literature on South African export barriers by having collected first-hand information from South African exporters through semi-structured interviews.

The IMS strategies of exporting firms have been analysed extensively in the literature on firm-level export behaviour. However, the focus of the literature has predominantly been on the IMS processes of developed countries. Research on South African firm-level IMS is also limited. A study by Ashley *et al.* (2022) was the first to examine the IMS processes of South African firms. They investigated 12 South African enterprises and found that the exporters followed a systematic, four-step IMS process. The aim of the current study was, among other things, to contribute to the limited body of research on South African IMS at the firm-level.

The results from the interviews, desktop analysis, and literature were presented in chapter 5. The in-depth interviews with key personnel in South African export firms gave valuable insight into the participants' experiences, perceptions, and values. Most of the export firms were currently supplying their products to other African markets, and only a few firms supplied to markets outside of Africa. Most of the participants were well-informed on available export opportunities for their products.

From the interviews it became clear that the firms did not find it difficult to identify new export markets. However, most of the firms did not seem interested in pursuing new, unknown markets. The participants used their current connections and relationships to bring in new business. Some of the firms also relied on supply and demand for their product as a market selection indicator. Thus, the participating firms followed a non-strategic approach to IMS.

These findings are supported by the literature, indicating that many emerging and developing markets prefer to follow non-systematic IMS strategies. However, this contradicts the findings of Ashley *et al.* (2022) (see section 4.5), probably because of the size of the firms included in the two studies. Ashley *et al.* (2022) interviewed enterprises diverse in size, while the participants of the current study were all SMEs. Musso and Francioni (2014:306-307) found that SMEs, in particular, use a non-systematic IMS approach, again confirming the results of this study. The contradiction with Ashley *et al*.'s (2022) findings may serve as motivation for future research on the IMS practices of South African firms.

When the exporters were asked why they do not export to the markets identified as untapped opportunities, they listed several barriers that would make these markets less profitable compared to their current destinations. The most pressing export barriers include high transport costs compared to those of their competitors in closer proximity, uncompetitive prices and quality, logistical issues, electricity disruptions, lack of government cooperation, high cost of capital, and trouble complying with the standards and protocols of the destination markets. Many of these factors were also identified in he literature as main export barriers experienced by both South African and global firms

(see sections 3.4.1 and 4.4). According to the participants, some export barriers have become more severe post COVID-19, for instance, logistical issues related to delays, port congestion, and container shortages, as well as increased freight rates and transport costs.

The desktop analysis of the market access to untapped export markets (identified in phase 1) correlates with the responses from the interviews. Transport costs are considerably higher to these potential markets compared to South Africa's current export destinations. The LPI and ETI scores were found to be lower for South Africa's current export destinations compared to most of the identified potential export markets. The findings regarding logistics efficiency (LPI) revealed that logistical issues would be less of a barrier in the potential export markets, which are mostly located in Europe, Asia, and South America, compared to South Africa's current export destinations. However, South African exporters may be at a disadvantage when competing in markets with higher LPI and ETI scores. Importers in such markets may lack understanding of the problems regarding infrastructure, border efficiency, and electricity in South Africa and the possible delays they can cause.

After conducting the interviews, the author sensed reluctance among the participating firms towards the idea of exploring new markets. Most of the firms did not seem open to exploring new markets for their products. They appeared comfortable with their current export markets, which were mostly other African countries, and relied on their networks to bring in new business.

The South African government is focusing on export-led growth strategies to address the country's economic development challenges. However, some of the main barriers identified by the participants were severe delays and miscommunication when their firms needed government assistance and cooperation in their export endeavours. The participants reiterated the lack of government support, extremely slow processes, and a tardiness towards supplying certificates and documents needed for exports. Better communication between the government and the industries is, therefore, essential if South Africa is to reach its desired economic growth levels of 6 per cent annually.

Figure 6.2 below graphically presents the main findings of this study. These findings are summarised as follows (with the category in figure 6.2 indicated in brackets):

- One of the major barriers to exploring untapped export opportunities is poor cooperation and communication between exporters and the South African government. Extensive delays and sometimes an unwillingness to provide the necessary documentation for international transactions result in orders not being delivered on time, or not exported at all (01 Local barriers).
- Issues with electricity supply result to materials being destroyed in the production process and/or exporters being unable to deliver their products on time. Damage to materials and equipment is costly and creates financial challenges, especially for smaller firms (01 Local barriers).
- South African exporters have a competitive disadvantage because they typically contend with higher cost of capital compared to their international counterparts. Reducing the cost of capital might encourage more South African producers to consider entry into exports (01 Local barriers).
- A major barrier to trade is difficulty in proving compliance with standards and protocols. To export their products, local firms must adhere to the safety and health standards in the destination countries. South Africa lacks the necessary testing laboratories, and products must therefore be shipped to other countries for testing (01 Local barriers).
- GMO and growth hormones are commonly used in South African food production. Since these are banned in several countries, the potential export markets for products containing GMO and HGPs are limited, particularly in Europe (01 Local barriers).
- Poor infrastructure, border delays, and high entry fees contribute to the costly and time-consuming process of transporting products to export markets in neighbouring countries or to ports for subsequent transportation to global export markets (02 Neighbouring country barriers).
- Social networks and relationships play a crucial role in accessing potential markets, with exporters emphasising the significance of trust in their business relationships. Considerable effort is invested in establishing and maintaining strong and enduring business relations (03 Network).
- The best way to deal with challenges in export markets appears to be having representatives permanently located in the export markets or sending representatives to the export markets when needed (03 Network).
- The participating firms werereluctant towards the idea of exploring new markets. The firms were comfortable with their current export markets (04 Reluctance towards new markets).

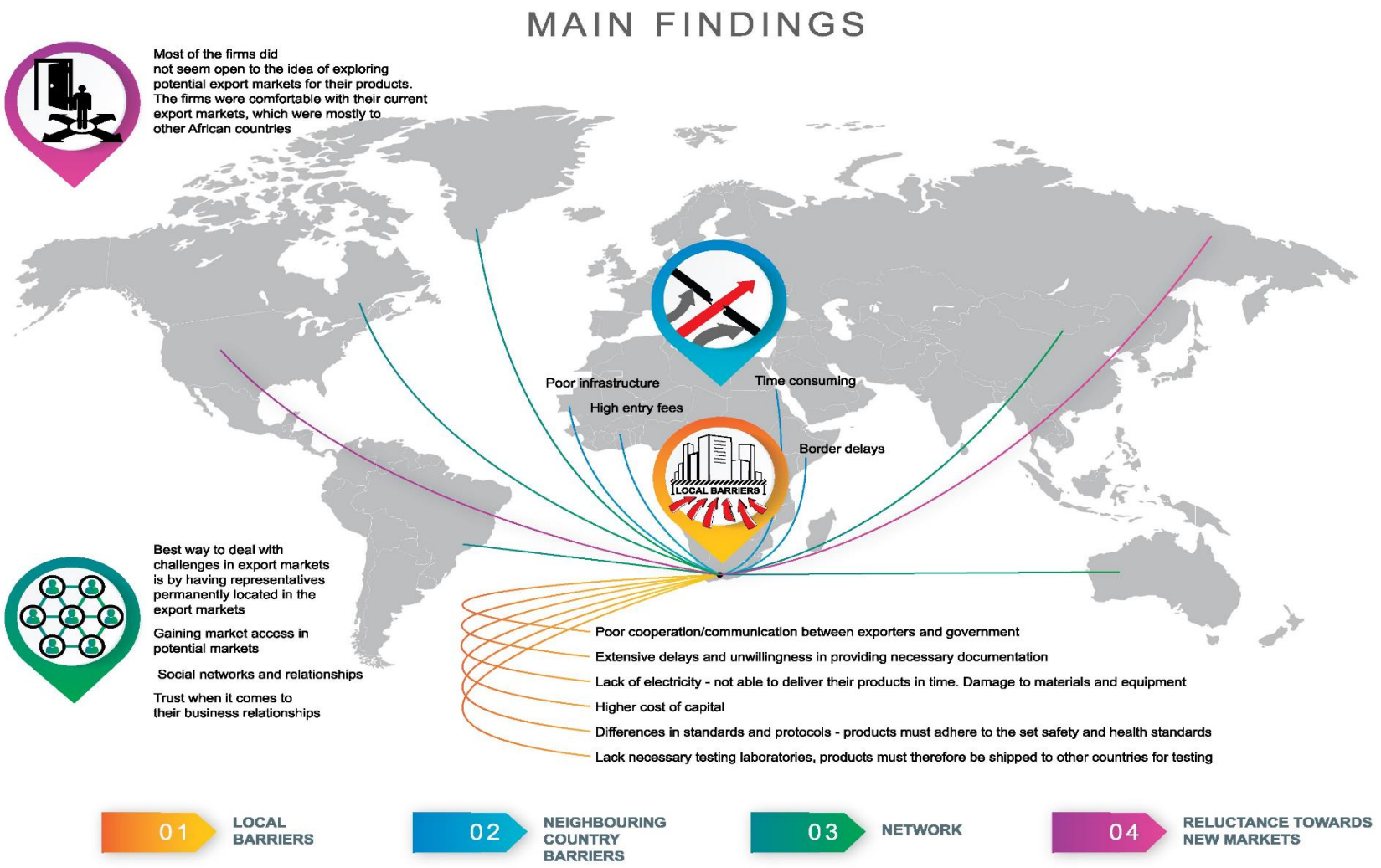

Figure 6.2: Summary of main findings

6.3 Recommendations

South Africa's missed export opportunities cannot be attributed to a lack of awareness of new export possibilities. Based on the conversations with the South African export firms participating in the study, the factors causing the underutilisation of export opportunities include lack of government support; high electricity prices and supply issues; high cost of capital; poor road, port and border infrastructure; high transport cost compared to competitors (proximity); and difficulties in complying with standards and protocols related to health and safety. The implications of most of these barriers can, however, be alleviated when dealt with correctly. Thus, addressing the problems identified in this study could help to cultivate the exports of higher-value products which would, in turn, benefit economic growth and development in the country (see section 1.1.1).

To increase South Africa's export levels, it is important to identify and deal with the barriers that export firms face. Based on the findings of this study, recommendations on how to overcome these barriers and the underutilisation of export opportunities of South African firms are summarised as follows:

6.3.1 Recommendations for export firms and industry associations

i. Conduct proper market research

When an exporting firm considers entering a new market, conducting proper market research is crucial before any export activities are initiated. The firm must familiarise itself with the potential market and identify possible barriers that might arise. Proper decision-making regarding the export distribution and logistics can only take place after the firm becomes familiar with its potential markets. Export barriers must be evaluated by experts in the field who, in many cases, are located in the importing country. It is advised that South African export firms follow a systematic IMS approach when selecting new markets for their export products. However, the ability of exporters to follow a systematic approach to IMS is hampered by the export barriers they experience.

ii. Partnerships and having a presence in the import market

Establishing a presence in the potential destination country might be essential for success in a foreign market. Some exporters recommend building a brick-and-mortar business in cooperation with a local partner. Others recommend having distributors or agents present in the destination market. These partnerships could ease difficulties related to language and culture, as well as barriers related to logistics, customs, and standards and protocols in the importing country. Thus, developing partnerships with local businesspeople in the destination market can be a valuable strategic approach to overcome numerous export barriers, particularly entry barriers faced in the importing

country. Partners located in the importing country may provide valuable information and insight into the dynamics of the potential export market. The appropriate use of partnerships can, therefore, reduce the number and severity of the barriers encountered by exporters, reducing overall risk and enabling easier market access.

iii. Industry associations to communicate new export opportunities

Although they did not mention challenges in finding new export markets, the participants suggested that the most efficient way to inform exporters about new opportunities is through industry associations. These associations usually distribute information regarding the production process and marketing of the exported products. Thus, industry associations can help to increase South Africa's export levels by channelling information regarding new opportunities directly to the relevant firms.

6.3.2 Recommendations for policymakers

i. Improve cooperation and communication between exporters and government

One of the main concerns raised by the South African exporters was their struggle to obtain the required documentation needed for their products. Several of the participants stated that export opportunities had been missed due to their inability to obtain permits in time. Simplifying export regulations might alleviate prolonged bureaucratic procedures that might delay export shipments. Improved collaboration between exporters and the government could, therefore, result in increased export activities, as firms would be able to provide the needed documentation to potential export markets more promptly.

Government export promotion initiatives could also introduce exporters to new international networks in markets with realistic and unutilised export potential. Instruments for export promotion aimed at building new export relationships include tailor-made trade missions, participation in trade fairs and exhibitions in the target market, and matchmaking opportunities with other exporters, incentivising piggy-back export systems (Cuyvers, Viviers *et al*., 2012:188-189). If better cooperation, communication, and trust can be established between export firms and government, the aforementioned initiatives can potentially have the desired effect. This study found that exporting firms rely on networks, trust, and relationships. Therefore, government support in establishing new trade relationships in markets with realistic and untapped potential can significantly contribute to successful exporting.

ii. Financial support

To deal with domestic trade cost and the barriers encountered in exporting to neighbouring countries, the South African government should invest in port, road and rail infrastructure, along with the automation of border procedures. These initiatives can assist in lowering total transport costs when exporting to more distant markets, addressing issues related to proximity, logistics inefficiency, and competitiveness.

Financial support and/or incentive schemes may also be offered to encourage investments in solar systems for exporting firms, presenting a potential solution to the electricity supply problems in the country. The implementation of such schemes, where export firms could contribute excess solar power back into the grid, could have spill-over benefits for the rest of the economy.

iii. Reduce the cost of capital

South African firms contend with higher cost of capital compared to most of their competitors. The government should provide trade finance or loans to qualifying exporters at lower rates than private institutions and negotiate improved credit insurance conditions when untapped export opportunities are pursued (Cuyvers, Steenkamp *et al.,* 2012a:189). Reducing the cost of capital might enhance the competitiveness of South African firms in foreign markets, enabling them to reduce their unit costs and sell their products at more competitive prices. Also, lower cost of capital might result in the production of higher-quality products within South Africa, which would further bolster the competitive advantage of South African exporters in foreign markets. Lastly, reducing the cost of capital can lead to the establishments of additional export firms, as this perceived barrier to trade would be diminished.

iv. Assistance in adhering to international regulations and standards

The South African government should enhance its support for exporters by facilitating adherence to international standards during the production of products intended for export. Government processes for obtaining export permits and the certification or documentation required by the target market should be streamlined and clearly communicated, possibly through automation. Also, collaboration with international organisations could lead to online platforms providing clear, current, and accurate information about international standards and regulations. Adherence to international standards and procedures will enable South African producers to gain access to a larger number of potential export markets.

In addition, the establishment of local testing facilities would greatly benefit South African exporters. Currently, these firms are expending considerable time and funds sending their products for testing in facilities located in foreign markets.

To conclude, policymakers should address supply side export barriers directly while working at alleviating demand side export barriers indirectly through diplomatic efforts.

6.4 Contribution of the study

This study contributes to the limited South African and international literature on the behaviour of exporting firms by investigating how South African exporting firms approach international market selection. The research delved into the barriers they face as well as the reasons why they are not exploiting export opportunities that show untapped potential.

Existing research on South African exports at the firm level has predominantly used cross-sectional survey data to investigate firm characteristics. In contrast, this study adopted a more targeted approach by collecting first-hand interview data. In this way, the author could gain deeper insight into the underlying reasons why South African exporting firms, already successful in other markets, are not capitalising on the export potential in markets identified as having large and growing import demand for their product.

Overall, this study will be of great value to South African export firms, policymakers, and export promotion agencies. It brings to light the challenges confronting many firms and provides recommendations for effective strategies to address them.

6.5 Limitations of the study and recommendations for future research

Rigorous qualitative research requires in-depth engagement with the participants. The time limitations of studies require additional strategies to be implemented by the research team. Exporters constantly operate under time constraints. One of the main challenges encountered during this study was the considerable time and effort needed to reach the appropriate individuals for interviews – people who were also willing to participate despite their demanding schedules. Due to the approach and focus of this particular study, certain important aspects like trade elasticities, access to finance and the impact of international trade agreements like AGOA and the African Union initiatives were not researched in a lot of detail in the study. Future research can analyse these aspects, specifically on an export firm-level, in more detail.

The primary data collected in this study reflected the views, experiences, and opinions of the participants. Thus, the participants' responses to the interview questions depended on the perceptions of the target population. It was clear, when saturation was reached at the seventh interview, that South African firms from different industries face similar challenges. However, there are industry-specific challenges, as mentioned in this study. Supplementing this research with interviews involving a larger number of participants in future studies could yield even more insights into specific industries. Lastly, future research on identifying successful practices from other countries could add further depth to the policy recommendations proposed in this study.

6.6 Reflection

The primary aim of this study was to provide insight into why South African firms are overlooking export opportunities that could lead to substantial economic growth and development in the country. The author engaged with South African exporters, gaining their perspective on potential export opportunities and avenues for growth. A qualitative research methodology was deemed the most suitable to collect valuable, first-hand information on the topic of firm-level IMS and export barriers faced by South African firms. A case study was conducted and resulted in an overview of the main reasons why lucrative export opportunities are missed.

Contrary to the author's initial expectation, namely that South African firms might not be aware of unutilised export opportunities for their products, the findings showed otherwise. Instead, they choose not to actively pursue new markets due to their reliance on and preference for their current networks and relationships. The study highlighted the many obstacles they contend with locally, including limited electricity supply, insufficient government support, challenges with competitiveness (pricing and quality), and difficulties in complying with international standards and protocols. Based on the results, the study proposed several recommendations and measures that could be adopted by both exporters and policymakers to deal with these export barriers and potentially boost South Africa's export activities.

The COVID-19 pandemic presented challenges to conducting qualitative research, making in-person interviews unfeasible. Thus, the interviews with South African exporters had to be conducted online. This study, like most post-graduate studies, was subject to time constraints. Nonetheless, even under unusually challenging circumstances, the research managed to achieve its objectives, and the study successfully contributes new findings and insights to the export firm-level literature.

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ANNEXURES

ADDENDUM A: INFORMED CONSENT

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INFORMED CONSENT DOCUMENTATION FOR EMPLOYEES/MANAGERS AT SOUTH AFRICAN EXPORT FIRMS

TITLE OF THE RESEARCH STUDY: DETERMINING THE FACTORS CAUSING THE UNDERUTILISATION OF EXPORT OPPORTUNITIES OF SOUTH AFRICAN FIRMS

ETHICS REFERENCE NUMBER: NWU-00027-21-A4

PRINCIPAL INVESTIGATOR: PROF SONJA GRATER / PROF ERMIE STEENKAMP

POST GRADUATE STUDENT: INGRID JENSERUD

ADDRESS: BUILDING E3, OFFICE 129, 11 HOFFMAN STREET, POTCHEFSTROOM

CONTACT NUMBER: 018 299 1479

You are being invited to take part in a **research study** that forms part of a Doctoral study. Please take some time to read the information presented here, which will explain the details of this study. Please ask the researcher or person explaining the research to you any questions about any part of this study that you do not fully understand. It is very important that you are fully satisfied that you clearly understand what this research is about and how you might be involved. Also, your participation is **entirely voluntary,** and you are free not to participate. If you say no, this will not affect you negatively in any way whatsoever. You are also free to withdraw from the study at any point, even if you do agree to take part now.

This study has been approved by the **Research Ethics Committee of the Faculty of Economic and Management Sciences of the North-West University** and will be conducted according to the ethical guidelines and principles applicable to this study. It might be necessary for the research ethics committee members or other relevant people to inspect the research records.

What is this research study all about?

We plan to investigate how South African exporting firms approach international market selection and why certain export opportunities are missed. Past research shows that a large percentage of South Africa's export potential is not being fully exploited. In the light of South Africa's much needed export growth, it is important to understand why successful export firms are not taking advantage of high export potential for their products in certain markets. In this study we would like to get in contact with key employees at South African exporting firms, to get a better understanding of the reasons behind the underutilisation of export opportunities.

This study will involve semi-structured interviews facilitated by experienced researchers in the field of International Trade. Interviews will be conducted until data saturation.

Why have you been invited to participate?

You have been invited to be part of this research based on your experience at a South African company that export products with three or more unutilised potential export markets. The export potential, and utilisation thereof, are determined by means of a scientific international market selection tool using validated world-wide bilateral trade data on a detailed product-level.

What will be expected of you?

You will be expected to participate in a semi-structured interview conducted by the researcher on an online platform (Skype, Microsoft Teams or Zoom). The interviews will consist of questions on the topics of international market selection (IMS) strategies and export activities of the firm you represent. The interview will last approximately 45-60 minutes.

Will you gain anything from taking part in this research?

The gains for you if you take part in this study could be new knowledge regarding potential export markets for your products, as well as information on the advantages of using scientific IMS tools when selecting export markets.

Are there risks involved in you taking part in this research and what will be done to prevent them?

There are no risks involved in participating in this study and it will not cause any harm or emotional discomfort. You will not be required to provide any information that is considered trade secrets. There are more gains for you in joining this study than risks.

How will we protect your confidentiality and who will see your findings?

Your replies to the questions will be kept confidential. No identifying information of you, or the company you represent, will be used when presenting the findings in this study or any potential future publications resulting from the data collected for this research. Only the researcher, the supervisors of this study and possibly one member of the research ethics committee, will have access to the transcribed interview data. Findings will be kept safe by protecting the data with a password. Hard copies (if any) will be safely locked away. Data will be stored for 3 years.

What will happen with the findings or samples?

The findings of this study will only be used for this study and presented in a thesis, and possibly an article in a scientific journal. The participants will remain anonymous in writing up the findings.

How will you know about the results of this research?

We will give you the results of this research when the study is completed, by sending you an infographic summarising the main findings of the study. The full thesis will be made available to you upon request.

Will you be paid to take part in this study and are there any costs for you?

You will not be paid to take part in the study. There will also be no direct costs involved for you if you do take part in this study, other than time and data costs to the company you represent.

Is there anything else that you should know or do?

You can contact Ingrid Jenserud at 063 741 3823 or ingridjenserud@hotmail.com if you have any further questions or have any problems. The supervisors of this study can also be contacted at Sonja.Grater@nwu.ac.za or Ermie.Steenkamp@nwu.ac.za if need be.

You can also contact the NWU Economic and Management Sciences Research Ethics Committee via Ms Dalene Vorster at 018 299 1529 if you have any concerns that were not answered about the research or if you have complaints about the research.

You will receive a copy of this information and consent form for your own record purposes.

Declaration by participant

By signing below, I ……..……. agree to take part in the research study titled: Determining the factors causing the underutilisation of export opportunities of South African firms.

I declare that:

- I have read this information/it was explained to me by a trusted person in a language with which I am fluent and comfortable.
- The research was clearly explained to me.
- I have had a chance to ask questions to both the person getting the consent from me, as well as the researcher and all my questions have been answered.
- I understand that taking part in this study is **voluntary** and I have not been pressurised to take part.
- I may choose to leave the study at any time and will not be handled in a negative way if I do so.
- I may be asked to leave the study before it has finished, if the researcher feels it is in the best interest, or if I do not follow the study plan, as agreed to.

Signed at (*place*) .....……..…….. on (*date*) ....……20….

.....

Signature of participant

Declaration by person obtaining consent

I *(name)* ……..…… declare that:

- I clearly and in detail explained the information in this document to

  …….

- I did/did not use an interpreter.
- I encouraged him/her to ask questions and took adequate time to answer them.
- I am satisfied that he/she adequately understands all aspects of the research, as discussed above.
- I gave him/her time to discuss it with others if he/she wished to do so.

Signed at (*place*) .....…..……. on (*date*) .....20....

.....

Signature of person obtaining consent

Declaration by researcher

I *(name)* ……..…… declare that:

- I had the information in this document explained by

  …… who I trained for this purpose.
- I did/did not use an interpreter.
- I encouraged him/her to ask questions and took adequate time to answer them.
- The informed consent was obtained by an independent person.
- I am satisfied that he/she adequately understands all aspects of the research, as described above.
- I am satisfied that he/she had time to discuss it with others if he/she wished to do so.

Signed at (*place*) .....…..…….. on (*date*) .....…..20....

.....

Signature of researcher

ADDENDUM B: INTERVIEW QUESTIONS

QUESTIONS FOR INTERVIEWS

1. Which markets is your company currently exporting its product/products to?

_____
_____
_____
_____

2. How does your company select these export markets?

_____
_____
_____
_____

3. Our research shows export opportunities for your products in markets you are currently not pursuing (name potential markets identified by the DSM). Is your company aware of these opportunities?

_____
_____
_____
_____

4. What may be some of the reasons that you are not exporting to these specific markets?

_____
_____
_____
_____

5. Which export barriers do you commonly face when you are exporting your product?

_____

_____

_____

_____