THE MEASUREMENT OF EXPORT READINESS OF COMPANIES IN SOUTH AFRICA

S. VAN ELDIK Hons. B.Com.

Dissertation submitted in partial fulfilment of the requirements for the degree Magister Commercii in International Trade at the Potchefstroomse Universiteit vir Christelike Hoër Onderwys

Supervisor: Prof. W. Viviers

2003

Potchefstroom

ABSTRACT

THE MEASUREMENT OF EXPORT READINESS OF COMPANIES IN SOUTH AFRICA

The improvement of international trade, and therefore increasing exports, is an important subject of discussion for policymakers. An increase in exporting is seen as critical for the development of any country, by ensuring economic growth and development. The literature implies that potential exporters lack the knowledge of the complexity of exporting their products. It is thus firstly extremely important for companies to determine whether they are 'export ready' before they attempt any export operation. Therefore companies need to have the necessary factors in place for the company to be able to export successfully.

The overall aim of the study was to indicate how any firm can determine whether it is ready to export or not by comparing its operations to the essential key factors of export readiness. Therefore, the purpose of the study was to outline the various factors that are necessary in the operations of a company for it to be defined as 'export ready'. These factors range from motivational and organisational factors to target market and product considerations. Thereafter the various trade barriers were outlined to inform companies of the impact these trade barriers may have on their potential export activities. These barriers vary from tariff to non-tariff barriers and other barriers relating to internal perceptions. In understanding the trade barriers, potential exporters will feel more at ease at attempting to export and will not feel restricted by them.

Government assistance plays an important role in helping companies determine their export readiness and also creating an awareness of trade barriers. Government promotion in other countries was outlined together with the assistance provided by the South African government. By comparing

these it became possible to provide clear recommendations to improve the role and quality of South African government assistance.

The empirical study was done in an attempt to improve the export readiness questionnaire used by Trade and Investment South Africa (TISA). Various questionnaires from other countries and institutions were examined in order to create a pilot questionnaire, which TISA piloted to 30 potential exporters. The results from this was statistically analysed and the results were examined. By examining the results as well as the questionnaires from other countries, it was possible to create a recommended short export readiness questionnaire to be used by TISA in their programme of assisting potential exporters.

The importance of the contribution made through this study lies in the identification of a limited number of key components to which companies should adhere to in order to be successful in the export markets.

OPSOMMING

DIE METING VAN UITVOER-GEREEDHEID VAN ONDERNEMINGS IN SUID AFRIKA

Die verbetering van internasionale handel, en dus die verhoging van uitvoer, is 'n belangrike onderwerp van bespreking onder beleidsmakers. 'n Verhoging van uitvoer word gesien as krities vir die ontwikkeling van enige land, deurdat dit bydrae tot ekonomiese groei en ontwikkeling. Die literatuur impliseer dat potensiële uitvoerders 'n tekort aan kennis het oor die kompleksiteit om produkte uit te voer. Dit is dus eerstens baie belangrik vir ondernemings om te bepaal of hulle "uitvoer-gereed" is, voor hulle poog om uit te voer. Dit is dus nodig vir ondernemings om die noodsaaklike faktore in plek te hê, sodat hulle suksesvol kan uitvoer.

Die algehele doel van die studie was om aan te dui hoe 'n onderneming kan bepaal of dit uitvoer gereed is om uit te voer, deur hul werksaamhede te vergelyk met die noodsaaklike sleutelfaktore van uitvoer-gereedheid. Die doel van die studie was dus om die noodsaaklike faktore binne 'n onderneming om uitvoer-gereed te wees, in breë te beskryf. Hierdie faktore varieer van motiverings- en organisatoriese faktore, tot teikenmark- en produk oorwegings. Daarna is verskeie handelsbeperkings bespreek om ondernemings in te lig oor die impak van hierdie hindernisse op hul potensiële uitvoer aktiwiteite. Die beperkings varieer van tarief en nie-tarief beperkings tot ander beperkings wat gekoppel is aan interne persepsies. As potensiële uitvoerders hierdie beperkings verstaan, sal hulle meer gerus voel in uitvoerpogings.

Regeringsondersteuning speel 'n belangrike rol om ondernemings te help bepaal of hulle uitvoer-gereed is en ook om hulle bewus te maak van die onderskeie beperkings. Regeringsbystand in ander lande is omskryf tesame met die bystand wat voorsien word deur die Suid Afrikaanse regering. Deur dit te vergelyk, het dit moontlik geword om duidelike aanbevelings te maak, om

daardeur die rol en kwaliteit van die Suid Afrikaanse regering se bystand te verbeter.

Die empiriese studie is gedoen in 'n poging om die Uitvoer-Gereedheid vraelys, wat deur Trade and Investment South Africa (TISA) gebruik word, te verbeter. Verskeie vraelyste van ander lande en organisasies is bestudeer om 'n toetsvraelys te ontwikkel. Die toetsvraelys is deur TISA geloods aan 30 potensiële uitvoerders. Die resultate is statisties geanaliseer en vergelyk. Deur die resultate van die analise te bestudeer, tesame met die vraelyste van ander lande, was dit moontlik om 'n aanbevole kort Uitvoer-Gereedheid vraelys op te stel, wat TISA kan gebruik in hulle program om potensiële uitvoerders te ondersteun.

Die belangrikheid van die bydrae gelewer in hierdie studie, lê in die identifisering van 'n beperkte aantal sleutel komponente, waaraan ondernemings moet voldoen om suksesvol te kan uitvoer.

ACKNOWLEDGEMENTS

During the course of this study I received unprecedented support from a variety of people, who I thank, in no specific order:

- To my parents for their love and support during the completion of this study, as well as for their patience.
- To my friends, for their support and understanding.
- To my supervisor, Prof. W. Viviers, for her advice, support and valuable knowledge throughout the completion of the study. Without her advice, patience and friendship, it would not have been possible to complete the study.
- To Prof. Andrea Saayman, for her assistance in the statistical analysis of the study.
- To the personnel at TISA for providing access to necessary information, and also for assistance in piloting the questionnaires. Without their support the study would not have been possible.

TABLE OF CONTENTS

		PAGE
Abstract		ii
Opsomming		iv
Acknowledgements		vi
Table of contents		vii
Tables and Figures		x
Chapter 1:	**Introduction**	**1**
1.1	Motivation of the study	1
1.1.1	The importance of international trade	1
1.1.2	Exports in South Africa	4
1.1.3	The importance of the measurement of export readiness	5
1.2	The aims of the dissertation	6
1.3	Demarcation of the study	6
1.4	Method of the study	7
Chapter 2:	**Export readiness factors and barriers to export**	**9**
2.1	Introduction	9
2.2	Defining export readiness	10
2.3	Assessing export readiness	11
2.4	Export readiness factors	12
2.4.1	Motivational factors	12
2.4.2	Organisational factors	14
2.4.3	Target market considerations	16
2.4.4	Product considerations	17
2.5	Barriers to export	19
2.5.1	Introduction	19

2.5.2 Tariff barriers 21
2.5.3 Non-Tariff/Technical barriers 26
2.5.4 Other trade barriers 35
2.5.5 Conclusion to barriers 36
2.6 Conclusion 37

Chapter 3: Export promotion by governments 38

3.1 Introduction 38
3.2 Background to export promotion programmes 39
3.3 Government assistance in other countries 41
3.3.1 Export promotion in Malaysia 41
3.3.2 Export promotion in Japan 45
3.3.3 Export promotion in Singapore 47
3.3.4 Export promotion in the Philippines 49
3.3.5 Export promotion in Belgium 51
3.4 Export promotion in South Africa 52
3.4.1 Export Marketing and Investment Assistance Scheme (EMIA) 54
3.4.2 Components of the EMIA scheme 55
3.4.3 Who qualifies for assistance under the scheme 56
3.4.4 The success of EMIA 57
3.5 Conclusion 58

Chapter 4: Empirical study 59

4.1 Introduction 59
4.2 Background to the statistical analysis 60
4.3 Composition of the sample 62
4.4 Export readiness assessment results 68
4.4.1 Management commitment to exports 69
4.4.2 Export administration skills 69
4.4.3 Capacity to supply 70
4.4.4 Quality management and technical know-how 71

4.4.5 Financial resources 72
4.4.6 Competitive intelligence 73
4.4.7 Export assessment conclusion 75
4.5 Factor analysis results 76
4.6 Company implications 78
4.7 Assessment implications 78
4.8 Conclusion 79

Chapter 5: Conclusions and recommendations 81

Annexure A: Pilot Export Readiness Questionnaire 85

Annexure B: Recommended Export Readiness Questionnaire 88

Annexure C: Questionnaires from other countries and Institutions 91

C.1 US Department of Agriculture: Foreign Agriculture Service 91
C.2 The Regional Municipality of Halton Canada 92
C.3 Department of Foreign Affairs and International Trade: Canada (Business Women in Trade) 93
C.4 Centre for the Promotion of Imports from Developing Countries: Netherlands 96
C.5 Pennsylvania Foundation: Business Resources Network 100

Bibliography 103

TABLES AND FIGURES

PAGE

TABLES:

Table 1: Sectors 62
Table 2: Number of employees 63
Table 3: Years in operation 64
Table 4: Province of Location 65
Table 5: Total turnover annually 66
Table 6: Management level of participant 67
Table 7: Factor Loading Matrix 77

FIGURES:

Figure 1: Sectors 63
Figure 2: Number of employees 64
Figure 3: Years in operation 65
Figure 4: Province of location 66
Figure 5: Total turnover annually 67
Figure 6: Management level of participant 68

CHAPTER 1

INTRODUCTION

The world has shifted its economic focus over the past few decades to the enhancement of international trade. Governments attempt to enhance export development and thereby stimulate economic growth. International trade has become an important factor taken into consideration in budgetary frameworks and in policy decisions. One might ask why international trade is so important to economies all over the world? What has caused this explosion of world trade?

1.1 MOTIVATION OF THE STUDY

1.1.1 The importance of international trade

There is no simple answer to the above-mentioned questions. The most basic explanation has its origin in Adam Smith, who thought of foreign trade as an extension of the domestic market. Foreign trade not only expands the demand for products which a country is producing for the domestic market, but also makes possible the production of more products to satisfy foreign demand. The obvious effect of such a market extension is that it enables countries to achieve economies of scale (Morrison, 1976:4). There are however also other possible answers for the increasing world trade.

- Development of a country

Exports are seen as a critical factor contributing to the development process of a country (Morrison, 1976:2). From a governmental perspective, exports are seen as important due to the fact that it has an effect on currency values, fiscal and monetary policies. Since floating exchange rates have been put into place, exports contribute to the balance of international economic

performance (Helleiner, 2002:2). International trade has created the opportunity for greater specialization, increased use of capacity, and the import of productivity-increasing goods and services.

Exports also affect public perception of the competitiveness of a nation. Exports are very crucial to the level of choice and the quality of life experienced by the consumers.

For the firm, exports offer the opportunity for economies of scale. With broader market possibilities, a firm can produce more and also produce more efficiently. This results in lower costs and higher profits, and ultimately higher growth within the firm.

- Market diversification

Exporting also brings market diversification, due to different growth rates and market conditions around the world. It provides stability because a firm is no longer dependent on only one market. Exporting lets the firm learn from competition in the markets, to appreciate different cultural environments and become sensitive to different demand structures. To do so takes courage, commitment and capability, all of which tend to affect corporate performance positively (Czinkota, 2002:124).

Therefore, due to the various reasons for the importance of exports, governments have realized the need for the promotion of exports and to reduce barriers that decrease exports.

- Reduced barriers

The reduction in barriers has been some of the first steps implemented by governments. Barriers to trade include transportation and communication costs. With improvement in technology in these areas, such as container ships, super tankers and satellite telecommunications networks, it is now

much easier for exporters in one country to contact importers in another and to deliver goods to them within a time limit.

Barriers to trade also include government-imposed limits on trade, including tariffs and quotas on imports and exports. Governments have been entering into a number of multilateral agreements to lower government-imposed barriers to trade.

Government support for exports over the years has become very important (Husted, 1990:10). Barriers have been reduced and incentives to export have been put into action. Therefore it has made the possibility of international trade much easier.

- Technology

Cross-border trade is today much easier to organize than in the past. International telephone and fax facilities are much better than previously and facilities for international business travelling are much more extensive. Hence it is simpler to visit potential foreign customers, partners and/or suppliers to select the best locations for operations. Contributing to this is also the fast expansion of the Internet and the benefits it provides. As technology is not measurable, it is more specific to look at innovation in products, markets and services and how this affects international trade.

- Cost of product development

When a company develops new products, the cost might be very high and it could require so much expenditure that the firm is compelled to adopt an international perspective, in order to retrieve some of the additional cost of product development.

- Competition

There might be intense competition in the domestic market, but little in certain foreign countries as the product might still be unknown in those markets or the countries do not have the capacity to produce the product (Bennett, 1999:3).

1.1.2 Exports in South Africa

Although all of the above has helped in promoting exports, trade in some countries has not been growing sufficiently. In a country like South Africa, which is characterized by highly variable economic development patterns, the creation of an appropriate policy framework to drive exports is an extremely challenging task.

Many companies have recently been able to secure a strong presence and reputation for themselves in foreign markets. Others though, have not been in a position to extend their sales reach into foreign markets due to a variety of reasons. Some of these include (ITRISA, 2002:1):

- A lack of skills
- Insufficient financial capabilities
- Operational inefficiency
- Lack in managerial effectiveness
- A weak export culture in many industrial sectors.

These are only a few of the reasons why companies may feel restricted to expand their markets abroad. Others, not mentioned by ITRISA, includes:

- Lack of competitiveness
- Price
- Product features and quality
- Service capability

The problem is that many of these companies are faced with a shrinking domestic market with the appearance of competition from abroad. In fact, many businesses are unable to compete with more efficient foreign producers exporting to, or operating within South Africa. Therefore they have been forced to cut costs, and thus cut jobs, to become more competitive.

The successes of already globally competitive firms need to be enhanced while those companies which are experiencing difficulty in achieving competitiveness and/or making successful entrees into foreign markets, need targeted assistance as well as a more export-supporting environment. The current support systems are either unknown to many firms, or are just insufficient (ITRISA, 2002:2).

1.1.3 The importance of the measurement of export readiness

It is extremely important for companies who are interested in exporting their products, to measure its export readiness. In measuring its export readiness before starting to export, the company can determine the areas in the company that needs further development before the company will be successful in exporting. Many companies do not realise the extent of what should be in place before the firm will be ready to export.

If a company or trade promotion organization can assess the various factors that are necessary, and determine which of these are lacking, the firm can decide to embark on further training/development in these areas. In this way, the firm can become more globally competitive and can make South African exports gain a larger global market share (Timm, 2003:7).

1.2 THE AIMS OF THE DISSERTATION

The first aim of this dissertation is to examine the way in which export readiness of South African firms is determined and to compare it to the export readiness of companies in other countries.

The second aim is to outline the various export barriers exporters face and the influence of these on an exporter's success. By eliminating the obstacles hindering successful exporting, companies will be able to reap the benefits of exports and growth in the company, and in the long run, South Africa will benefit from these developments.

The third aim is to compare this questionnaire to the questionnaires used in some other countries and also to the various export readiness factors and barriers. It will then be possible to make recommendations as to the efficiency of TISA's questionnaire. Recommendations to the creation of a more efficient questionnaire to be used in South Africa will be made.

1.3 DEMARCATION OF THE STUDY

In chapter 1 the background and motivation to the study is outlined. The reasons for exports as well as the importance of the measurement of export readiness are discussed. The purpose of the dissertation is finally outlined.

In chapter 2 the measurement of export readiness according to a variety of export readiness questionnaires as well as the literature available on the topic, is discussed. The various factors that are necessary in a company before it can start to export are identified. These factors and how they influence the export readiness of a company are discussed. The various export barriers that exist, are also outlined to give exporters a better perspective of the extent of exporting and the influence these trade barriers have on the export process.

In chapter 3 the attention is shifted to government assistance in export promotion. Firstly, government promotion programmes in a variety of other countries are discussed, after which the EMIA (Export Marketing and Investment Assistance) scheme, implemented by TISA (as part of the Department of Trade and Industry (DTI)), is explained.

Chapter 4 focuses on the empirical study that was done to evaluate TISA's export readiness questionnaire according to the various export readiness factors and export barriers outlined in chapter 2. It is also compared to export readiness questionnaires obtained from various other countries and organizations to create a revised short questionnaire for use by TISA. The results derived from the piloting of the initial questionnaire are analysed statistically and conclusions are drawn in order to develop a more efficient questionnaire that surrounds the essence of export readiness.

In chapter 5 the study is summarised, final conclusions are drawn and recommendations are made for further study.

1.4 METHOD OF THE STUDY

A literature study based on the measurement of the export readiness of companies was firstly undertaken. Secondly an evaluation of the South African export readiness questionnaire, as used by TISA as prerequisite for the EMIA scheme has been done.

A sample of export readiness questionnaires from various countries were drawn in order to establish the measurement of export readiness in other countries as well as to determine the most appropriate way to formulate a more efficient questionnaire for the South African context by which export readiness of firms can be determined. After examining these questionnaires, together with the export readiness factors and barriers, it was possible to compile a pilot export readiness questionnaire with an initial 24 questions on export readiness.

This questionnaire was then piloted by TISA to 30 potential exporters. These 30 questionnaires were analysed statistically, through factor analysis on the statistical programme LISREL 8, to determine the questions that are most important and significantly group together. It was then possible, after studying the results from the analysis, to compile a shortened recommended export readiness questionnaire, consisting of 15 questions on export readiness.

CHAPTER 2

EXPORT READINESS FACTORS AND BARRIERS TO EXPORT

2.1 INTRODUCTION

The arrival of the global market and the worldwide reach of the Internet have provided companies with unprecedented opportunities and unprecedented challenges. Globalisation, however, is not a new phenomenon. Williamson (1996) is of the opinion that the first globalisation boom took place in the late nineteenth century when the benefits of revolutionary breakthroughs in transportation and communication was realised. The result was rapidly growing trade. The second globalisation boom took place in the mid-twentieth century, but really accelerated during the early seventies. Globalisation is characterised by the fact that distance and national borders no longer matter and by the ease with which business across the globe can take place, the nation state and geography are no longer relevant for economic purposes. South Africa re-entered the international economy in the early 1990s at a time when the process of globalisation was beginning to gain momentum. Apart from coping with the forces of globalisation, the South African economy also has to manage its emerging market status (Loots, 2002).

Therefore, exporting is perhaps still one of the most challenging activities a South African company will ever engage in. Not all companies are ready for export markets, although some have the potential to become successful in exports eventually. Others, however, will never have the ability or resources to enter export markets.

It is important for companies to know where they stand in respect of their readiness to export, and they should be able to identify their shortcomings (Trade Point Pretoria, 2003). It is therefore the aim of this chapter to describe the factors influencing a company's export readiness, as well as a discussion

of the various trade barriers that exporters face when attempting to export a product successfully.

2.2 DEFINING EXPORT READINESS

"Export Ready" is a term commonly used by export assistance organisations. It signifies that a firm has the character, capacity and courage to enter into this particular business. It qualifies a company for export assistance on a somewhat more consistent, challenging and sophisticated level than a company that is still in the process of learning how to export, and that lacks the financial or organisational commitment required to enter into foreign markets. Export readiness is often used to describe a company that is willing to take the information, resources and assistance it is provided with and use it in a positive and productive manner. The ability to learn and manage the "unknowns", and complete each task required to be successful, is a common profile of an "export ready" firm (Food Export USA Northeast, 2002).

In addition, export readiness is market specific, and the same company may be export ready for one market and not export ready for another. That arises from the nature of the products and services offered, the expertise the company has, and the requirements and preferences of the individual export markets. For example, exporting to some Latin American, Asian, African and Middle Eastern countries can be extraordinarily difficult for a western company. In trading with these countries, there are now at least two variables to take into account for each domestic one: another economic and political system, another source of regulations, another culture, another dialect, another set of customers and competitors and, perhaps, another geography (Karamally, 1998:3).

It is important that companies not rely only on their domestic markets, but gain entry to viable international markets before any advantage that they have is dissipated, and they enter markets for which they are export ready. To do that they must first assess overall export readiness and then select market areas which match that readiness well. This should provide the shortest route to

successful systematic exporting, at the lowest cost and in the shortest time. The decision process is a step function and can be described as follows (The Burbank Group, 2003):

- Define the areas of export readiness warranting attention and improvement by assessing the company's export readiness.
- Define support sources for improving those identified areas.
- Define best match export market opportunities.
- Shorten, simplify and make less expensive the process of finding agents/distributors in the selected markets.

Therefore the following sections will discuss how a company should assess its export readiness as well as the different factors influencing the company's export readiness.

2.3 ASSESSING EXPORT READINESS

In order to become an exporter, a company should be in at least one of two situations (DTI, 2002). The first situation is that the company holds a strong position at the buyer's end. The company either has a special relationship with an international buyer or the company has the necessary expertise for specific markets and has the ability to secure markets for a variety of products. In this position, the company would be referred to as a procurement agent or middleman. The company would work according to a buyer's shopping list, or respond to international tenders, and would not necessarily have expertise in the products being bought.

The second situation is that the company has a product or a range of products, or has assured access to the product and has expertise in trading in that specific product. It is preferable that the company is currently selling the product into the domestic market and wishes to expand to international markets. Exporting should not be seen as a separate industry, but merely as an extension of the local market.

If the company qualifies under the second situation, the company's success in international markets will be dependent on a variety of factors, which will be discussed in the next section.

2.4 EXPORT READINESS FACTORS

Determining a company's export readiness is the primary step in establishing an export component to the business. Many of the concepts to be considered are similar to the domestic side of the business. The majority of companies strive for monopolistic competitiveness, whereby enterprises must define their markets narrow enough to dominate it, yet large enough to make a profit. Therefore, exporting becomes very desirable, if the right markets can be targeted. However, since there is an "international variable" to every aspect of exporting, these issues must be addressed from a different, informed and very realistic perspective. The first step to exporting is for management to overcome the reluctance to export. Thereafter, the following issues must be considered in order to evaluate the company's export readiness:

2.4.1 Motivational Factors

There are normally the motivational reasons companies decide to engage in exporting. It may be found that one or more may match the company's motivational reasons for exporting:

2.4.1.1 Contribute to general long-term expansion

If the company's objectives are to expand the business over the long-term, exporting may be a good option. Successful exporting is built upon plans that are well laid, and that take time to develop and execute. Building an international sales and marketing programme involves taking time to identify market opportunities, develop working relationships with overseas partners, and engage in profitable transactions that are in alignment with the overall goals of the company (Tradeport, 2003).

2.4.1.2 Enhance competitiveness

Generally, participating in the international marketplace provides opportunities for companies to improve their overall competitiveness. By selling internationally, a company can gain insights on customer requirements, competitor activity, and different ways of doing business (management know-how). Additionally, by competing internationally, companies may acquire new technologies, and new ideas for products, as well as partnerships (Tradeport, 2003; Food Export USA Northeast, 2002).

2.4.1.3 Exploit unique technology and expertise

Entering the exporting arena because of a technological advantage the product or company possesses, may help lead to success within the international marketplace. Superiority in product quality and expertise can give a company an edge over competitors who may not possess such advantages. For those without (and with) a technological edge, the company should consider the other advantages it may choose to offer that may include product packaging, after-sale servicing, delivery and, of course, competitive pricing (Food Export USA Northeast, 2002).

2.4.1.4 Improve return on investment

If the reason for exporting is to see immediate return on investment, exporting may be profitable. Generally, succeeding at exporting requires long-term goals and objectives, where as short-term gains and profitability will not be an immediate reality. Exporting programmes that are most likely to succeed are those that are well thought out, plan for the long term, conduct market research, build international relationships, and arrange the sale and delivery of international shipments. Companies should seek multiple benefits from exporting, such as expanded customer networks, exposure to new ideas and technology, and ideas for global sourcing (Tradeport, 2003).

2.4.2 Organisational Factors

These are normally the organisational factors that influence a company's decision to export. There are a variety of scenarios that best match a company:

2.4.2.1 Management commitment

Experts agree that commitment from management is the number one determining factor of export success. Management shows their commitment to an international sales programme by setting aside funding to support the programme, allotting time to manage this programme, and assigning personnel to carry out the programme's transactions. Participation from management early and often in the export development process can facilitate market entry and expansion.

Management must be willing to sacrifice near-term profits for long-term sales. Reluctance to do so during the period of establishing international customer relationships may hinder export success and market penetration. It is important to set management's expectation of the result of doing business internationally. It is also crucial to identify the level and rate of return on investment expected from the programme. Management must be realistic and know that international sales plans involve long-term objectives and not short-term pay-offs (Cacchione, 1996:21; PASourceNet, 1997).

2.4.2.2 Funding support

Management must be willing to allocate sufficient funds and create an adequate budget for export activities. Businesses who want to break into exporting will need funds for working capital, product modification, medium term credits to foreign customers, and operations such as staffing, communications, and travel budgets. When companies are constrained by their inability to allocate or raise funds for such needs, they will encounter difficulties. If internal funds are not available, funds could be secured through

commercial banks and other financial service providers who can help meet long-term objectives (Jaffe & Pasternak, 1994:28).

2.4.2.3 Personal expertise and commitment

Having in-house staff with international experience can facilitate the entry into the international marketplace. If such a person is not available, the company can hire or train present staff to assume the responsibilities. This person will need to be aware of rules and regulations regarding exporting the specific class of product. The employee should also be knowledgeable of the target market's language and culture. Though English is accepted as the language of business, having the ability to communicate in a customer's native language will give the company an advantage over its competitors (Jaffe & Pasternak, 1994:28).

2.4.2.4 Production capabilities

Selling a product internationally (as well as domestically) requires the capacity to produce or manufacture the product. The company should possess the space and equipment needed to manufacture for the specific countries the company is selling to. If the company is already selling domestically, the production capacity should be available to handle and store additional orders, because expanding into the international marketplace will result in a higher number of units to manufacture (Food Export USA Northeast, 2002; Tradeport, 2003).

2.4.2.5 Company's exporting goals

Increasing profits and growth are the main reasons to export. However, the company must be aware that exporting pays off when it takes a long-term approach in developing an export plan, building international relationships and organising export functions internally. Boosting competitiveness, extending product life, and balancing revenue deviations occurring in domestic markets are other goals the company may have for exporting. Whatever the goal, the

company should consider whether the expected benefits outweigh the costs. If costs do outweigh benefits, perhaps the company should focus on domestic business instead, or look at exporting at another time, when it is a more viable option (Cacchione, 1996:21; Jaffe & Pasternak, 1994:28).

After these factors have been considered, it is also important to evaluate the product's readiness to export. Many factors play a role in determining if a product is ready to export. Considering the target market and the product itself will help in deciding if the product is a viable business solution. Therefore the following factors must be evaluated.

2.4.3 Target Market Considerations

One of the important aspects to consider in this regard is the life cycle position the product will enter into in the target market. This refers to the product life cycle theory that was developed by Vernon in 1996 (Salvatore, 2001). According to this model, when a new product is introduced, it usually requires highly skilled labour to produce. As the product matures and acquires mass acceptance, it becomes standardised; it can then be produced by mass production techniques and less skilled labour. A potential exporter needs to examine the target market carefully to determine in which stage in the product's life cycle the market is, and therefore in which stage the product will enter the market. If the product enters near to the maturity stage, then it will not have a long profitability period and will have to be adjusted into mass production rather quickly. So this will all depend on whether the product has already been successfully established in the domestic market or not.

2.4.3.1 The product is already successful in domestic markets

Research shows products that enjoy or have enjoyed a healthy market response domestically, may do just as well in other countries, given similar conditions and markets. If conditions abroad are, however, significantly different (socially, culturally, economically, politically and environmentally), the success of exporting might meet obstacles (Tradeport, 2003; Anon., 2000:19).

2.4.3.2 The product has not been sold domestically, focus is on international sales

Beginning to sell a product in the international marketplace might be a good decision, even if the product does not have a selling record at home, although this is not a recommended activity. This is only possible in certain sectors or certain products. For example, a producer receives a direct foreign order for a product, as part of a governmental project, etc. If the company decides to focus solely on exporting the product, social, cultural, economic, political and environmental characteristics of the target market should be considered (Tradeport, 2003; CBI, 2003).

2.4.4 Product Considerations

Once the target market has been considered, it is also necessary to evaluate the product itself. It should be determined whether the company has an exportable product and whether it is ready to be exported. The following factors are important to assess products:

2.4.4.1 Product modifications

A product may be sold without modifications to international markets, as long as it meets standards and regulations set by the respective country. Some countries have strict governmental regulations that require special testing, safety, quality and technical conformity measures. Others impose tariffs and taxes on certain product classifications, while still others enforce non-tariff barriers, such as certification, inspections and quota limitations. The cost of adapting and modifying the product for international sale should be considered (Cacchione, 1996:30; Trade Point Pretoria, 2003).

2.4.4.2 Training to operate the product

Products may require training to operate and this places a greater responsibility on the company and distributor or agent, and the company must

decide how to support this. If users of the product do not require extensive training, the exportability of the product is stronger (PA SourceNet, 1997).

2.4.4.3 Support after sale

Products that require considerable support after the sale must be handled by a distributor or agent who is well positioned to provide such a service. After-sale support may include maintenance, parts inventory, training and warranty. Maintenance issues may involve technical assistance costs, whereas parts inventory may involve additional storage and shipping costs. Additional costs of travel for training, and solid design and delivery techniques should be considered (PA SourceNet, 1997; Tradeport, 2003).

2.4.4.4 Versatility

A product that has multiple applications has greater potential in the international marketplace. In exploring the product potential in a new market, a flexible product can appeal to a number of diverse audiences (Tradeport, 2003).

2.4.4.5 Differentiated products

Products that have unique features enjoy a competitive advantage and better reception in foreign markets. Such unique features include patents, superior quality, cutting edge technology, or adaptability. If the product has competition in a foreign market, it may be difficult to sell. It should be ensured that the product has significant advantages over its competitors by looking at its unique features, suitability, and enhanced after-sales service. If a product is new and unique, it should be determined if any low-cost market research exists to help assess the market potential (Cacchione, 1996:30).

This relates to the theory of monopolistic competition, whereby it is accepted that each company's product differs in only a small way from others, which implies product differentiation (Van der Merwe, Styger & Grobler, 1997). Each

individual company has a monopoly over his product, which differs marginally from other products in the sector. It therefore has an advantage in certain features or service.

After export readiness has been determined, it is also important for companies to take note of all the possible trade barriers outside the company's influence that may prevent them from exporting successfully. The cognisance of these barriers during the initial export stages is essential for future success in international business endeavours. These barriers will be discussed in the next section.

2.5 BARRIERS TO EXPORT

2.5.1 Introduction

Exporting can be rewarding both financially and personally if it is successful. A thoroughly professional approach is the only one that is likely to produce sustained export success and the rewards that it brings. All too frequently one comes across half-hearted approaches to export, or, as one distinguished consultant put it, 'sellers of excess home production overseas'. This may produce short-term results, but is much more likely to produce frustration, financial loss, and a cynical view of foreigners and mutterings concerning discrimination against the exporting country.

In the days prior to the Uruguay Round and the establishment of the World Trade Organisation (WTO), it was not possible for some manufacturers to export to many countries because of tariffs and quotas on imports. This was particularly true for what are termed the 'developed' or 'industrialised' nations. As tariff barriers have been eroded or eliminated by various General Agreement on Tariffs and Trade (GATT) arrangements and the work of the WTO, exporters have been able to consider new markets. However, other types of export barriers still exist, generally referred to as non-tariff barriers. These still pose extensive problems for governments and policy makers.

Much evidence has accumulated showing a strong positive association between trade policy reform and economic growth. Trade restrictions and domestic policy interventions often create a bias against tradable products, especially exports, that prevents economies from achieving otherwise attainable rates of growth. It has been found that import barriers in the African region are far higher than those in the developing countries that achieved the highest export growth rates, and they appear to be biased against potential export products. African tariffs are more than three times higher than those in the developing countries with the highest growth rates and more than five times higher than those in OECD countries. In addition, more than a third of African imports encounter some form of non-tariff barrier. These findings suggest that if Africa is to reverse its unfavourable export trends, the region needs to adopt appropriate trade policies to enhance its international competitiveness and to permit African exporters to capitalize on opportunities in foreign markets (Yeats, 1997).

Therefore it is important for companies to determine how trade barriers will affect their export success. These barriers stem from exporters' external environment, both in the country where the company is located and the foreign markets where the firm plans to operate (Leonidou, 1995:4).

The inability to cope with impediments at the early stages of the export development process can cause a passive attitude towards foreign operations and it can result in the company's failure in subsequent export activities, often leading to permanent withdrawal from exporting. It is therefore important for companies to take note of the various trade barriers prior to the attempt to export and determine whether the company can cope with it. This can be done by consulting trade promotion agencies to assist in pointing out the various trade barriers that can affect the company.

The various forms of trade barriers can be divided into tariff barriers, non-tariff barriers and other barriers relating to perceptions of companies, and will be discussed in this format in the next sections.

2.5.2 Tariff Barriers

A tariff is a tax levied by a foreign government imposed on goods imported into that country (or import duty). The tariff increases the price at which the goods are sold in the importing country and therefore makes them less competitive with locally produced goods.

2.5.2.1 Types of tariffs

A tariff may take on one of the following forms (Du Plessis, 1998:109):

- Ad Valorem Duty
  The kind most commonly used and is calculated as a percentage of the value of the imported goods, e.g. 10, 25 or 35 percent. This may be based, depending on the country, either on destination (CIF), or on the value of the goods at the port in the country of origin (FOB).

- A Specific Duty
  This is a tax of a specific amount of local currency per unit of the goods imported (based on weight, number, length, volume or other unit of measure). Specific duties are often levied on foodstuffs and raw materials.

- An Alternative Duty
  This is where both an ad valorem duty and a specific duty are combined into a duty for a product.

- Compound Duties
  These are imposed on manufactured goods that contain raw materials that are themselves subject to import duties. The 'specific' part of the compound duty (called compensatory duty) is levied as protection for the local raw material industry.

2.5.2.2 Dutiable Weights

Depending on the country and product, the dutiable weights used to calculate specific import duties may be the gross weight, the legal weight or the net weight (Du Plessis, 1998:110). The dutiable weight is the actual weight upon which duty must be paid.

The gross weight is the weight of the goods and all interior and exterior containers, as well as the packing material.

The legal weight (used mainly by Latin-American Countries) is the weight of the goods and of the immediate interior container.

The net weight is the weight of the goods without the packing materials. However, in a few countries, it is defined as including the weight of the immediate container.

Very often, there is a fixed percentage allowance (called the tare) used by the customs authorities for determining gross weight from net weight, and vice versa. Most countries using specific duties employ different types of dutiable weights for different commodities.

It is essential for an exporter to know what dutiable weight is being used for its dutiable product as he may be able to vary he's packing accordingly. In some countries, such as Switzerland, Venezuela and Columbia, most specific duties are levied on gross weight, whatever the nature of the good.

2.5.2.3 Anti-Dumping Duties

Dumping is the sale of a product abroad at a price lower than that usually charged in the home country. This may be profitable for a manufacturing firm because it enables it (Du Plessis, 1998:119; Malaysia Exports, 2002):

- To engage in longer production per unit of output.
- To sell goods that would otherwise remain unsold.
- To sell goods at a price that covers the variable cost of production and marketing of each unit and also makes some contribution, however small, to the cost of the plant overhead.

Exchange dumping means a country manipulates its exchange rates to lower the selling price of its products when calculated in terms of the foreign currency.

Since these practices are naturally considered to be unfair competition by manufacturers in the country in which the goods are being dumped, the government of the foreign country will be asked to impose anti-dumping duties. These are additional duties to the normal ones, designed to match the difference between the price in the home country and the price abroad.

2.5.2.4 Countervailing Duties

These special additional import duties that a government may levy on goods exported from their country of origin, have been encouraged by the payment of an export subsidy. The purpose of the duty is to offset, or "countervail", the subsidy so that the goods cannot be sold at an artificially low price in the foreign country and thereby provide unfair competition for local manufacturers.

In addition to customs duty, an exporter may also have to pay one or more extra charges in order to get the goods into the foreign country. These include:

- Taxes
  - An import surtax (calculated as a percentage of import duty).
  - A package tax (a small tax on each package in a shipment).

- An import surcharge (this is calculated as a percentage of the value of the shipment, and is usually levied on selected items, notably luxury goods, to discourage their import).
- The exporter may also be required to pay various internal taxes, such as sales taxes, excise taxes, purchase taxes and value added taxes, before his goods reach the final customer (Du Plessis, 1998:119).

- Prior Deposit

  Some countries, particularly in Latin America, require importers to deposit local funds of up to 100 percent of the value of the shipment before they are permitted to import any goods. These deposits are then held, interest-free, by the Central Bank of that country, for various lengths of time before being refunded.

- Consular Fees

  Another, and often substantial, additional charge on imports is the consular fee required to legalise shipping documents. This fee may be collected by the consular authorities in the exporting country or by the customs officials at the port of entry.

2.5.2.5 Customs Nomenclature

Since 1950, over 120 countries have agreed to use the Brussels Tariff Nomenclature (BTN) established in that year, which classifies products according to their physical substance. Another customs nomenclature, the Standard International Trade Classification (SITC), was developed by the United Nations for statistical purposes because not all countries used BTN. An item-by-item correspondence has been worked out between the two tariff classifications.

Because many thousands of different products enter into international markets, more and more countries switched to the already widely used BTN.

The Customs Cooperation's Council (CCC), located in Brussels, with membership of over 120 countries, is promoting this trend towards greater customs uniformity by preparing drafts for new customs conventions and by offering technical assistance in customs administration.

More recently the Harmonised Commodity Description and Coding System (HS) have replaced BTN. The HS was developed under the auspices of the CCC and launched in January 1988. The HS comprises 5019 groups or categories of goods, which are grouped into 97 chapters, the latter being arranged into 21 sections. By consulting the HS, customs officials are able to clearly identify a particular imported item and charge the applicable rate of duty (ITRISA, 2003).

2.5.2.6 Bonded Warehouses

In many countries there are bonded warehouses in which dutiable imports may be temporarily stored. Import duty need to be paid only as and when the goods are removed for domestic sale. If the goods are re-exported, no import duty is collected. Bonded warehouses offer an exporter the opportunity to defer payment of import duties and so ease its cash flow requirements.

2.5.2.7 Free Trade Zones

A free trade zone or free port is an isolated, enclosed area into which an importer can bring imported materials, parts and finished goods without the payment of import duty. In it, there are roads, buildings, power and other utilities, suitable for handling, storing, mixing, assembling and otherwise using imported and domestic materials and parts. The finished goods may then be sold locally, after payment of duty on the imported contents, or exported to other countries.

2.5.3 Non-tariff/Technical Barriers

The second form of barriers that needs to be recognised, are non-tariff barriers. Non-tariff barriers have been a characteristic feature of South Africa's trade regime for a very long time. They were originally intended to foster industrialisation, but in recent years they have been justified as strategic tools to attain self-sufficiency in light of trade sanctions. As the world lifted sanctions, the government replaced non-tariff barriers with tariffs. The process is not yet over and some non-tariff barriers remain, especially against goods of agricultural origin. Therefore exporters still need to have sufficient knowledge about the possible non-tariff barriers they may encounter.

Broadly speaking, technical or non-tariff barriers can be identified as national technical requirements which occur in laws, regulations and standards, together with conformity certification schemes, which affect the design, manufacture, marking and use of products in the country concerned. Many of these so-called technical barriers to trade have not been erected consciously to keep exports out, but are either an inherent part of the structure of the importing country, or the outcome of an historical situation. The results, from differing legal systems, arise from a different approach to provision of goods and services in the country concerned. In the majority of cases these barriers are not in any sense new and have existed for decades or even centuries. They have become more apparent in the last fifteen or twenty years with the massive increase in trade between the industrialized nations and the associated increase in competition for the markets involved (British Standards Institution, 1999).

This section is an attempt to make the exporter aware of these technical or non-tariff requirements so that he can consider them early enough to ensure his product is acceptable when it finally reaches the target market. Failure to take these requirements into consideration can result in time consuming delays and lost sales, loss of profits and sometimes-even bankruptcy, to say nothing of the damage to the reputation of the company and country of origin.

2.5.3.1 Import Quotas

An exporter may find that a foreign country restricts imports not only by means of tariffs but also by qualitative measures. These usually take the form of import quotas for each particular product. Once the quota for the period has been filled, no more import licenses are issued.

There are three main type of import quota in use today (Belli, Finger & Amparo, 1993:5; Malaysia Exports, 2002):

- Unilateral quotas

  These are quotas set by a country without pervious consultation or negotiation with others. Such a quota may be global or allocated. If it is global, the total volume of goods that may be imported is set regardless of the countries of origin or the importers and exporters involved. If it is allocated, the permitted volume of imports is allocated among countries of origin and private traders in accordance with some previous pattern.

- Negotiated quotas

  In this case, the importing country, after negotiations with the government of each exporting country, or with groups of its exporters, allots shares of the quota to each country. Often, with a bilateral negotiated quota, the exporting country is given the responsibility for issuing licenses to its exporter.

  Sometimes a negotiated bilateral quota goes under the guise of a voluntary export quota - for example, the "voluntary" quotas that Japan places on its exports of man-made textiles to the United States. With a multilateral quota, the restriction is placed on the total amount of

imports only, with no restriction as to source. This is discussed in more detail in 2.5.3.11.

- Tariff quotas

  With this type of quota, a country allows a certain amount of a product to enter at a given rate of import duty or even duty free. Any excess amount is subjected to a much higher rate of duty.

2.5.3.2 Law and regulations

Obviously no serious exporter would wish to flout the laws of the country or countries to which his products are being shipped, but it is surprising how frequently assumptions are made that the legal requirements abroad will be the same as in this country. This assumption is one of the first myths that must be dispelled, not only in relation to laws and subsidiary regulations and requirements that stem from the laws, but also with regard to standards, approval or certification schemes and other practices.

If there is one thing an exporter should expect when approaching a market overseas, it is that there is a very good chance that the requirements and practices will be different in some way from those in his home market, and he should be looking for these differences (British Standards Institution, 1999).

A prime example of technical requirements in legislation occurs in the USA. A manufacturer of wooden or metal ladders looking at the USA as a possible market might decide to see if there is any US standard applicable. A search of the standards scene would reveal over 30 pertinent standards, from household and industrial ladders to swimming pool and Jacob's ladders, produced by a number of standards bodies and trade associations. The exporter may think that compliance with these documents is sufficient, and he can then concentrate on matters such as agents, shipping, insurance, credit, and methods of payment.

2.5.3.3 Standards, specifications and codes

Although there is now much more international harmonization activity taking place, there are still many national standards that differ in some way from those of other countries. In general in the developed or industrialised countries, there are standards related to manufactured products. These standards will probably differ in some respects unless they have been the subjects of international or European harmonization (and even here differences can still arise). In addition these standards may not necessarily be produced or issued by the national standards authority of the country concerned.

Most of the developing nations also now have standards organizations, which are in general concentrating on producing standards for indigenous products. Other countries are still influenced by previous colonial administration and education; Algeria for example works largely but not exclusively to French standards. This will change however as did Australia and New Zealand who have moved from almost automatic adoption of British standards to writing their own standards to meet their own specific needs and conditions.

Standards, and the requirement to comply with them, may well become technical barriers to trade in the developing world as it makes progress.

2.5.3.4 Certification

The requirements for product or quality certification go back hundreds of years. Early examples include the 'assaying' of articles made from precious metals or the 'proving' of gun barrels.

There are basically two types of certification, 'independent third-party certification' and 'self-certification'. In the former the certification of conformity to requirements is undertaken by an organization, which is independent of the manufacturer seeking certification. Self-certification is the system where the manufacturer or producer himself takes responsibility for certifying conformity

of the product with applicable criteria. An example of independent third-party certification is the Kitemark scheme operated by BSI in the United Kingdom.

Another form of certification is that which relates to the production process, whereby the factory is certified as being capable of producing goods on a consistent basis. This type of quality management system will apply not just to the production process but to processing of customer complaints, sources of supply etc., and is based on a consistency of procedure. In the UK, a standard for this type of certification is BS EN ISO 9001, but other countries have other standards and the use of quality management can be a contractual condition imposed on the supplier.

In many countries it was, and still is, a legal requirement that goods be certified. In the EU the number of products covered by this legal requirement for certification has been considerably reduced, but the eventual customers, be they individuals or corporate entities, still expect to see the certification marks they have grown accustomed to over the years on the products that they buy. In this case what was once a legal requirement has become a commercial necessity if serious penetration of the market is to be made by a new product competing against established ones.

Any certification system needs a standard or specification to certify against. The documents are generally provided by the sources identified in the section dealing with standards. This can lead to particular problems where new products or materials are used for which there is no standard in existence and special procedures have to be developed.

Several sources reported problems in the cooperation between European international certifiers and US certifiers, especially with regard to imports of tropical fruits and coffee and cocoa. In several instances European certifiers required extensive additional supporting documents or were not satisfied with paperwork of their US certifying counterparts. It is hoped by the majority of certifiers that the introduction of ISO 65, as standard procedure on how to

document organic certification, will at least alleviate this problem (Organic Trade Association, 2003).

2.5.3.5 Quantities and units

Once a major problem, the differences between national metrological practices (particularly those relating to units of measurement) are being progressively eliminated as more and more countries adopt the harmonized metric system. While countries like the USA and the UK are in a transitional stage, problems will remain temporarily. Even in the long term, however, it should be borne in mind that not all 'metric' countries have precisely the same system. Although all national metric systems are based on the International System (SI), some non-SI units remain in practical use. One notable area of differing national practices is the calibration of pressure gauges, another is the acceptability or otherwise of dual scale markings (e.g. SI and non-SI units). Some countries permit this practice although it can be conditional on SI markings being the larger, while other countries do not allow dual scales.

2.5.3.6 Patents and trademarks

New technical regulations tend to focus the attention of research and development departments of organizations throughout the industrial world on to a specific need. A classic example is the promulgation of motor vehicle gaseous emission control legislation in the USA and elsewhere. This resulted in vast sums of Research and Development (R&D) money being devoted to emission control technology and in the patenting of many different solutions to the problem, such as new exhaust system catalysts, fuel metering systems and combustion chamber configurations. A manufacturer may well develop a technically viable solution, but it is unlikely to be commercially viable if some other company has beaten him to the world's patent offices.

Trademarks are not normally associated with barriers to trade, but they can in practice present something of a problem in the context of conformity certification systems. Many such systems tie the validity of 'type certification'

or 'type approval' to continuing production of the same product and the criteria may well include retaining a particular trade or brand mark. A change of trade or brand mark therefore, perhaps to permit marketing through two or more major 'own brand' retail organizations, may necessitate a formal amendment to the certification documents. These trade or brand marks may also be significant in establishing the identity of the 'producer' for product liability purposes and any change may necessitate formal revision or amendment of the insurance documents.

2.5.3.7 Language

Different languages have always presented a barrier to trade, but some are of the opinion that it can be even more of a problem where technical requirements are concerned. The multi-lingual world is a reality and yet many companies and individuals are still surprised to learn that in France the laws and standards are written in French and that in Japan they are written in Japanese.

Conversely and contrary to popular opinion all foreigners do not understand English no matter how loudly they shout. It is true that many well-educated Germans, Swedes and Dutchmen speak excellent English and some can also cope exceptionally well with English technical terminology, but these are often the exception and not the rule. The technician in the laboratory where the product is to be certified or approved may have great difficulty in getting on with the testing if he cannot understand the information they have sent him, which can lead to delays and thus eventually lost sales.

The business of technical translation both into English and into a foreign language is not one to be tackled lightly by using staff in the general office, or even a local translation agency, unless they have technical linguistic ability. One company produced their technical specification and sales literature in several foreign languages only to find eventually after all had been printed and sent out, that they were claiming remarkable performance for their 'watery sheep', which is how the non-technical translator had dealt with 'hydraulic

rams'. Similarly the French word 'tournesol' means sunflower and one company had spent some considerable time trying to locate a supply of sunflower paper 'papier de tournesol', when they should have been looking for litmus paper. How many translators know that the German word 'Stickstoff' which literally translated means 'sticky material' is not adhesive but nitrogen? The list of similar mistranslations in the technical field is endless and although amusing they can cause serious delays, expense and damage to the credibility with potential customers (Czinkota & Ronkainen, 2002:64; British Standards Institution, 1999).

2.5.3.8 Exchange controls

Some countries restrict imports by limiting the amount of "exchange", or foreign currency, available to pay for them. Often, imports are classified into essential and non-essential or luxury goods. Foreign currency is made available at one rate of exchange for essential imports while a more limited amount of foreign currency is made available at a much higher rate of exchange for the luxury items such as foreign cars.

This restricts the import of luxury goods and is taxed more heavily than essential goods through the sale of foreign currency at a "free market" rate of exchange rather than at the official one. Other countries achieve the same effect by levying exchange taxes at various rates according to the priority attached to the product to be imported.

With exchange control, anyone wishing to obtain foreign exchange must secure permission from the government. Such a system permits the government to restrict the demand for scarce foreign exchange and to ration it out among different needs.

This rationing of foreign exchange also applies to importers: they must obtain a foreign exchange permit before they can import any goods and must pay a higher rate of exchange for imports of "luxury" or "non-essential" goods.

Exchange control, like import quotas, is therefore another very effective way of restricting imports as well as other types of foreign exchange spending. Together with tariffs and import quotas, it forms the main form of protectionism.

2.5.3.9 Customs delays

Exporters sometimes find that their goods are held up at foreign ports because of inexplicable delays by Customs Officials. These are sometimes the result of a deliberate government policy to restrict imports. The Customs authorities may argue that the documentation or marking of the goods is not exactly as required.

Exporter documentation should try to give as little excuse as possible for such delays. However, should the Customs authorities decide to inspect thoroughly each item imported, rather than just a sample, there will always be horrendous delays. Canada once used this technique in the port of Vancouver to pressure Japan into agreeing to place "voluntary restraints" on auto exports to Canada.

2.5.3.10 Customs valuation procedures

Not all countries use the same method to assess the import duty on the value of goods imported. By using one method rather than another, an importing country can set a higher value on the goods and therefore levy a larger ad valorem duty.

2.5.3.11 Voluntary restraints

Sometimes, when one of its domestic industries is being badly hurt by foreign imports, a government will undertake to persuade the exporting countries to "voluntarily" restrict their exports. The government usually obtains co-operation for such a program of voluntary restraint by making explicit or implicit their intention to impose quotas or increase tariffs.

2.5.4 Other Trade Barriers

The third type of barrier exists mostly because of perceptions and the mindset of exporters. These may affect attitudes towards risks, costs, and the benefits of exports. Therefore, all potential exporters should take note of these in the quest to become more open towards exports.

2.5.4.1 Distance to markets

Exporting usually starts with countries that are geographically close and culturally similar to the home market. With regard to South African companies, the situation is different in that the nearest geographical markets are culturally different (Viviers, Kroon & Calof, 1996:36). Most South African businessmen have their culture rooted in Europe, more than 10 000 km away from South Africa. Furthermore, the nearest geographic markets are third world by nature with very different cultures than the European. Thus, this may become an inhibiting factor in exporting.

2.5.4.2 Anti-export Bias

Protection by government inevitably introduces an anti-export bias on two accounts. Firstly, it makes sales at home more lucrative than sales abroad by allowing firms to raise prices in the domestic market above those that would prevail under free-trade conditions. Secondly, it makes exporting firms less competitive internationally by increasing the cost of their inputs, hence their cost of production. As a result, the policies tend to make production for the domestic market far more profitable than production for exports (Belli *et al*, 1993:19).

2.5.4.3 Inward-looking Culture

Much of the support for export promotion arises from a criticism of import substitution policies that historically preceded this export stage. South Africa is no exception in this regard. Growing support for export-led growth

strategies follows decades of inward-looking economic policy. It is questionable whether import substitution could ever have achieved its intended objectives in South Africa. Its aim was to save foreign exchange by feeding and protecting the growth of industries geared to replace expensive imports. But protection means comfort, and comfort usually leads to complacency. Many protected industries are inherently less efficient in that management comes to depend on the assistance and false cost structures it is afforded (SAFTO/BMI, 1993:79).

The geographical problems mentioned above certainly have contributed to this situation. However, there is something culturally innate in South Africans that predispose them to focus on their own country. Therefore, the culturally based inward-looking mentality may not be conducive to developing export activities.

2.4.3.4 Green Products

A recent barrier has developed together with the development of environmental consciousness. Many countries restrict the import of goods that have not been produced in environmentally conscious manners. Thus they are only willing to import 'green products', which has been produced in a process that decreases the danger production usually poses for the environment.

2.5.5 Conclusion to Barriers

'Barriers' is a strong and emotive term and perhaps 'obstacles' would be a better description because they can be and are frequently overcome as the many successful exporters demonstrate. Provided enough research, time, patience and dedication, not to mention money, are made available, it is possible to better understand and recognise these barriers or obstacles. Managers need to make enough effort to minimize the inhibiting effects of export barriers by using various management consultancy and advisory services.

Overall, South Africa is only starting to recover from the sanctions and non-democratic policies that preceded the past decade. The long-term effects of sanctions, the distance to export markets, restrictive currency legislation, high domestic costs and a general inward-looking culture are not factors conducive to export.

Therefore it is important for managers to evaluate export barriers very intensely and understand their effects, before any export attempt is made.

2.6 CONCLUSION

In conclusion to this chapter, it has become obvious that companies who consider exporting their products, should first and foremost determine whether the company is export ready by weighing the different export readiness factors to the company.

After this has been done, it is also important to determine what export barriers are relevant to their company and product, and what effects they may have on the overall export activities.

Thereafter, it becomes important to take note of the various government assistance programmes that can help the company in the next steps to exporting. These programmes offer not only financial assistance, but also advise in the overall export process.

In the next chapter, the background to export promotion by governments will be discussed. It will then be necessary to look into a few international examples of how other governments assist and promote their exporters and then relate it to the South African government assistance that is provided. One of these government assistance schemes in South Africa will be overviewed, namely Export Marketing and Investment Assistance (EMIA), and their assistance in the export process will be evaluated.

CHAPTER 3

EXPORT PROMOTION BY GOVERNMENTS

3.1 INTRODUCTION

It has become clear from the previous chapter that no company can address the various export obstacles alone, especially not if it is the company's first attempt at exporting. In the initial stages of the export process, companies need to be certain that they comply with the export readiness factors and that they understand the impact of the various export barriers on their company. It is thus clear that they will need support from institutions that have experience in the field. Governments have developed various approaches towards export promotion or assistance (Czinkota, 2002:127). One approach focuses on knowledge transfer to enable greater competence within firms and offers either export services programmes or market development programmes. Service programmes typically consist of seminars for potential exporters, export counselling, and how-to-export handbooks. Market development programmes provide sales leads to local companies, offer participation in foreign trade shows, preparation of market analyses, and export newsletters.

A second export promotion approach deals with subsidisation of export activities. Such government support can be direct or indirect and is mostly financial in nature.

A third approach to export promotion consists of reducing governmental red tape for exporters. For example, the requirements for multiple export licences or permits issued by various government agencies, the imposition of technology export controls, or a confiscatory approach to export earnings are all impediments to exporting which governments can remove, thus stimulating an increase in exports (Czinkota, 2002:128).

This chapter therefore aims to discuss what other countries use as export promotion mechanisms and how they support export readiness. After this is done, it is then necessary to discuss the current export promotion programmes in South Africa. A comparison is then drawn and the conclusions are discussed. This is essential in helping government determine where their export promotion programmes lack in efficiency.

3.2 BACKGROUND TO EXPORT PROMOTION PROGRAMMES

Generating exports is a primary policy concern for most governments, as economic theory shows that an increase in exports leads to a direct increase in GDP. Substantial resources are devoted to export promotion programmes designed to increase the propensity of companies to export. However, while useful politically, throwing monetary resources at a problem can be very wasteful. In the era of government budgetary problems and fiscal frugality, programme accountability is part of every politician and administrator's agenda. In the export promotions sector, the need to spend money wisely has emerged as a key concern (Weaver, Berkowitz & Davies, 1998:1).

However, the above statement assumes that policy makers have a complete knowledge of the determinants and inhibitors of export entry and a clear understanding of the export decision-making process, as well as the needs of exporters and the factors that contribute to their competitiveness. Unfortunately, companies overall do not constitute a single homogeneous group. Therefore, it is essential that policy-makers fully understand the kinds of differences that occur among them if they are to provide programmes that effectively move these companies into successful exporting (Moini, 1998:1). One of the important ways in which firms differ is where on the "internationalisation process" continuum they fit. It is proposed here that firms in one stage of the development process may have different needs and interests to be met by government assistance programmes than firms in another stage. It is important to note the various stages of internationalisation.

It has been determined that all firms go through certain stages of internationalisation on their ways to becoming successful multinational firms. Several stages classification schemes have been identified (Calof & Viviers, 1995):

- Stage 1: Management is not interested in exporting.
- Stage 2: Management is willing to fill unsolicited export orders, but does not actively pursue export markets.
- Stage 3: Management has explored exporting to a country which is geographically and culturally similar to the home country (i.e. it is what is called a 'passive' exporter).
- Stage 4: Management is exporting on a more active basis to the country identified in stage 3 (it is now termed an 'experimental' exporter).
- Stage 5: Management is actively exporting to two or more countries (it can now be termed 'active' exporter).
- Stage 6: Management has committed significant resources to the international operations of the firm. Decisions regarding foreign direct investment, international structure, and resource allocations at international level dominate management discussions.

Each of these stages involves an increased commitment to international activities. Commitment increases as managers learn more and therefore become less uncertain about foreign markets.

The most important question to ask is if the assistance granted by governments are that which would most greatly increase exportation. Obviously, subsidies, credits and insurance will increase profits or reduce risks for the exporting firms and are highly desired by them. It must be considered, however, that in the context of export promotion, an increase in export profitability of firms is only meaningful if it leads to increased export activities. Any policies aimed at the profitability issue are therefore only addressing the symptoms, not the problem. An export promotion approach which would deal with the central issues of increasing foreign sales, would be

market oriented (Czinkota & Ricks, 2001:73). To be truly successful, exporters need to satisfy the demands of their foreign clients. Primary attention, therefore, needs to be directed to determining what the importers of local products want and need, and then to assist the exporters to fulfil these wants and needs. The development of an information dissemination programme is thus incredibly important, whereby government provide companies with information on foreign countries, buyers, and markets.

Therefore, government assistance needs to be efficient in providing any information and support, from determining whether a company is export ready, to the information it will need in order to be successful, if it is to have any long-term impact on export growth in a country.

In the next section, a few assistance programmes from other countries will be discussed to be able to evaluate South Africa's assistance programmes. These countries have been chosen firstly because the information was readily available, and secondly because these countries are similar to South Africa in economic structure and development.

3.3 GOVERNMENT ASSISTANCE IN OTHER COUNTRIES

3.3.1 Export promotion in Malaysia

The Malaysian economy in 2001 was affected by the global economic slowdown, which was aggravated by the September 11 incident. However, the resilience of the Malaysian economy and the measures adopted by the Government to generate growth in trade and industry had helped to mitigate the adverse impact of the slowdown.

Malaysia's total trade in 2001 declined by 10.2 per cent to RM615.1 billion, with exports amounting to RM334.4 billion and imports to RM280.7 billion. Despite the lower exports, Malaysia continued to register a trade surplus of RM53.7 billion. According to the World Competitiveness Yearbook, Malaysia ranked 7th for their export of goods.

The ASEAN region remained as Malaysia's main trading partner, accounting for 24 per cent of Malaysia's total trade in 2001 or RM147.6 billion. Other major trading partners were the United States of America, with a share of 18.3 per cent of total trade, followed by Japan, Singapore and the People's Republic of China.

Notwithstanding the trade situation in the year 2001, there were several positive trends in Malaysia's market diversification efforts. Trade with the People's Republic of China, West Asia, and the Commonwealth of Independent States was seen to increase significantly. The People's Republic of China emerged as Malaysia's fourth largest trading partner, moving up from the seventh position in 2000 as a result in the increase in exports by 21.7 per cent to reach RM29 billion. Exports to West Asia increased by 13.1 percent and to the Commonwealth of Independent States by a significant 83.1 per cent (Chairman's Statement, 2001).

MATRADE was established in March 1993 as the external trade promotion arm of Malaysia's Ministry of International Trade and Industry (MITI) to assist Malaysian exporters specifically in export and import related information. By providing market research information and relevant advice, MATRADE assists Malaysian exporters to enhance the position of their products and services in the highly competitive global markets.

MATRADE, with its network of 23 offices located in commercial cities worldwide, pursues the following functions (About MATRADE, 2001):

- To promote, assist and develop Malaysia's external trade with particular emphasis on the export of manufactured and semi-manufactured products and services.
- To formulate and implement export marketing strategies and trade promotion activities to promote Malaysia's exports.

- To undertake commercial intelligence and market research and create a comprehensive database of information for the improvement and development of Malaysia's trade.
- To organise training programmes to improve the international marketing skills of Malaysian exporters.
- To enhance and protect Malaysia's international trade investment abroad.
- To promote, facilitate and assist in the services areas related to trade.

MATRADE provides trade information through the following networks (About MATRADE, 2001):

- A computerised database of Malaysian exporters and foreign buyers for business matching. This database is updated on a regular basis.
- A business library that offers the business community a convenient means for conducting preliminary research on markets and products.
- Trade directories, exporters guidebooks, monthly trade bulletins, weekly trade leads and research studies.
- Information on overseas markets and business opportunities.

MATRADE also provides grants and funding for their exporters:

- Market Development Grants (MDG's) to assist SME's to undertake activities for the development of the export market.
- Seminars/workshops to nurture new exporters and update existing exporters on trade developments and business opportunities in international markets.
- Guidance and advice to SME's that have the potential to market their products and services abroad.

In 2001, MATRADE, as part of its trade promotion activities, continued to organise the participation of Malaysian companies in 32 international trade fairs overseas and nine trade missions. As result of these efforts, export sales

of over RM349 million was generated, while another RM2.2 billion in potential sales was reported by the 784 participants (Chairman's Statement, 2001).

In line with the export promotion strategy to promote exports to new markets, MATRADE had intensified trade promotional activities to West Asia, People's Republic of China, Latin America, Africa, India, the Philippines, Myanmar, Thailand and Madagascar.

MATRADE's role in the promotion of the services sector was enhanced when it was tasked to be the secretariat to the newly established National Professional Services Export Council (NAPSEC), which is responsible for formulating strategies and programmes for the promotion of export of professional services including construction services. NAPSEC comprises representatives from major professional bodies and relevant government agencies and acts as an advisory council to MATRADE's Board.

To assist in promoting the export of construction and related professional services, MATRADE organised specialized marketing missions to the World Bank in Washington DC and to the Asian Development Bank in Manila and Hanoi. These missions were aimed at familiarising the private sector representatives on procurement opportunities, policies and procedures of these organisations as well as to establish networking.

Various initiatives undertaken by MATRADE in the 2001 had enhanced its ability to disseminate timely and useful market and trade information to the business community. Amongst the main achievements were the completion of the IT-related project aimed at web enabling key databases such as the Malaysian Exporters Database, the Foreign Importers' Database and the Malaysia External Trade Statistics and the introduction of online services such as applications for registration with MATRADE and for participation in its export promotion activities.

MATRADE was able to reach out to a larger export community in 2001 with the registration of more than 5,000 companies with MATRADE. These companies were continually kept informed of MATRADE export promotional activities, developments and information of overseas market opportunities, in particular through the fortnightly MATRADE's Online bulletin and the monthly Trade Mart.

In the process of assisting their exporters and potential exporters, MATRADE developed an export readiness information package, together with an export readiness questionnaire to help exporters determine their export readiness before entering international markets.

3.3.2 Export promotion in Japan

The Japan External Trade Organization (JETRO) was established by the Japanese government in 1958 as the nation's principal organization for the comprehensive implementation of trade policy. In its first few decades, JETRO promoted Japanese exports to meet the needs of the nation's post-war economy. In the first half of the 1980s, however, as Japan's trade surplus continued to grow, the organization began promoting imports entering Japan to help the nation achieve more balanced foreign trade.

Today, JETRO places a strong emphasis on the promotion of foreign investment entering Japan. Attracting foreign investment is a key strategy for stimulating domestic employment and revitalizing the Japanese economy. JETRO also provides small and medium-sized enterprises with support for their international trade and investment activities, and thereby stimulate the economies of East Asia and in fact the entire world. In addition, they help developing nations nurture their parts/components supply industries, support industrial development programmes between regional areas of Japan and other countries, and promote cooperation between industries in Japan and other developed nations.

To carry out these and other activities, JETRO operates an extensive network of offices worldwide, comprising JETRO Headquarters in Tokyo, JETRO Osaka and 36 other offices in Japan and another 79 offices in 60 countries. They merged with the Institute of Developing Economies (IDE), Japan's largest regional studies organization, in July 1998, resulting in a new organization with comprehensive capabilities not only in trade and investment promotion, but also research into economic and related issues in developing regions of the world (JETRO, 2002).

As the world economy continues to be reshaped by globalisation and other major trends, JETRO remains committed to making meaningful contributions toward the expansion of balanced Japanese trade and investment, as well as the development of mutually beneficial relationships with Japan's economic partners.

JETRO collects and provides a diverse range of information through its 80 overseas offices, domestic headquarters in Tokyo and Osaka, and 36 regional offices nationwide.

The IDE conducts basic and comprehensive studies on economic and related affairs in Asian countries and in developing regions with a view to contributing to the promotion of economic cooperation and the improvement of trade relations between Japan and these areas.

JETRO operates two libraries: the Business Library (in Toranomon, Tokyo as well as in Osaka) and the IDE Library (in Makuhari, Chiba Prefecture).

A JETRO programme that offers support for two-way international regional development between Japanese regional economies and overseas regions and businesses, is in place. Supported industrial exchange includes those for collaborative research related to technology, capital investment and design.

JETRO provides information to Japanese companies interested in or wishing to investigate the possibility of making overseas investments. Investment

advisors are stationed at JETRO's Tokyo and Osaka Headquarters to answer inquiries from Japanese companies.

In order to promote direct investment by Japan's supporting industries, JETRO conducts surveys on the current conditions and the investment environments of supporting industries in SI (Supporting Industry) Project host countries.

Since fiscal 1992, JETRO has been proceeding under the Green Aid Plan promoted by METI by holding policy dialogues with the governments of the countries concerned.

The JETRO Business Japanese Proficiency Test (JETRO Test) is Japan's first officially recognized test of non-native speakers' proficiency in listening and reading comprehension as well as in oral communication of the Japanese language in business-oriented situations.

JETRO provides information for students interested in experiencing internships in Japanese companies. JETRO, in cooperation with METI, has also been supporting the Japan Industry and Technology Management Training (JITMT) internship programme since 1995 in conjunction with universities in the US, UK, and Canada (JETRO, 2002).

The Asian Trade Promotion Forum comprises 21 Asian trade promotion organizations working for expanded trade in the Asian region. Its website, run by JETRO, is a portal to Asia for business people worldwide. The website provides information on export readiness, as well as the factors that need to be in place for the company to be export ready.

3.3.3 Export promotion in Singapore

To meet the challenges of an increasingly competitive global market, the Singapore Trade Development Board has been restructured to focus on internationalising Singapore-based enterprises. Known as "International

Enterprise Singapore" or IE Singapore, their mission is to help Singapore based companies who are willing and able to grow and internationalise successfully.

IE Singapore is the primary agency to encourage the spreading of Singapore's external economic wing. It offers a wide range of services, both locally and overseas, to help companies shorten their learning curve and make the right connections. These include providing valuable market information, doing feasibility studies and finding overseas partners.

They also promote Singapore as an SME hub by attracting enterprises from other countries to be based there, so that they can collaborate with International Singapore Companies (ISCs) to venture into the region.

Starting at the very basics, IE Singapore helps companies develop their core capabilities from product and services development, manpower and branding, to capital enablement, networks and alliances. With over 30 offices worldwide and a successful track record as that of the Trade Development Board, IE Singapore are uniquely equipped to help companies succeed. They do this by providing local market know-how, by helping companies overcome market boundaries, and by offering them the advantages of regional and global opportunities.

The mission of the economic agencies in Singapore, headed by the Ministry of Trade & Industries (MTI), is to promote high and stable levels of economic growth and employment, so all Singaporeans have ample opportunity to improve their standards of living (IE Singapore, 2001).

These strategies are derived from Singapore's general philosophy of economic management: strong adherence to a free market economic system, and active pursuit of outward-oriented economic policies. IE Singapore has also derived their export readiness measurement from this philosophy and their questionnaire is based on what they see as being essential components for a company to be successful internationally.

3.3.4 Export promotion in the Philippines

The Department of Trade and Industry (DTI) had its origins in June 23, 1898 when President Emilio Aguinaldo formed four government agencies, namely the Departments of Navy, Commerce, Agriculture and Manufacturing.

In September 1901, the Philippine Commission established the Department of Commerce (and Policy). After World War II, President Manuel A. Rozas issued Executive Order (EO) No. 94 in 1947, creating the Department of Commerce and Industry.

Prior to EO 94, the Bureau of Commerce was tasked to develop and promote the country's trade and industry, under the overall supervision of the Department of Agriculture and Commerce (DCI).

By 1972, DCI had grown into a big organisation with 10 regular bureaus and 22 agencies under its direct supervision. The DCI was mandated to promote, develop, expand, regulate and control foreign and domestic trade and industry, as well as tourism.

In 1975, the Department of Trade was created to pursue efforts of the government towards strengthening the country's socio-economic development, particularly in the area of commercial activities. A key strategy of the new department was vigorous export promotion to generate much-needed foreign exchange.

In the early 1980's, the Marcos government's goal of national economic development required industrial promotion efforts with the expansion of Philippine trade abroad. This resulted in the creation in 1981 of the Ministry of Trade and Industry, which took over the functions of the subsequently abolished Departments of Trade and of Industry.

Under EO 133 which remains effective up to the present time, the DTI serves as the primary coordinative, promotive, and facilitative arm for trade, industry

and investment activities. It acts as the catalyst for intensified private sector activity to accelerate and sustain economic growth through (DTI, 2001):

- A comprehensive industrial growth strategy
- A progressive and socially responsible liberalization and deregulation programme
- Policies designed for the expansion and diversification of both domestic and foreign trade.

On July 19, 1999, President Joseph E. Estrada issued EO 124 authorizing the DTI Secretary to review the DTI systems/operations and initiate structural changes. It also deputized a senior Undersecretary as a special trade negotiator. DTI sees its role as business and consumer champion guided by its 5-point action strategy, namely:

- Promoting and developing business, with focus on SMEs
- Preparing for the Knowledge Economy
- Lowering the cost of doing business
- Ensuring consumers get the best value for money, and
- Upgrading the quality of DTI governance.

The end goal is to grow and expand Philippine trade and industry as the means to generate jobs and raise incomes, so that the Philippine people may enjoy continuing improvements in their quality of life.

The Bureau of Export and Trade Promotion's (BETP) Export Assistance Network (EXPONET) in the Philippines helps exporters and prospective exporters access information and resolve specific problems related to exporting.

Its network consists of over 128 agencies within and outside DTI, including the Bureau of Customs (BoC), Bangko Sentral ng Pilipinas (BSP) or the Central Bank of the Philippines, and other export-related agencies including

those represented at the One-Stop Export Documentation Centre. Advisers are stationed in all DTI regional and provincial offices.

EXPONET provides information on the following (iReklamo, 2001):

- Export seminar schedules
- Export organising
- Export procedures and documentation
- Import facilities for exporters
- Buyer linkages
- Export financing and incentives
- Product raw material sourcing
- Statistical information.

The agency also assists exporters in export-related problem/trade complaints.

3.3.5 Export promotion in Belgium

Belgium is a relatively small country in the European Union, with its population accounting for 0.2% of the world population. In 2002, Belgium was responsible for 3.3% of world exports and 2.9% of world imports. With only 2.9% of the population of the European Union, Belgium accounted, in 2002, for 8.5% of EU exports and 8.2% of EU imports. Therefore, in 2002 Belgium was ranked 10th as an exporter and 11th as an importer, according to the World Competitiveness Yearbook. The ratio between Belgium's export of goods and its Gross National Product (GNP) in 2002 was of the order of 81% (Belgium Foreign Trade Board, 2002).

Belgium has various institutions assisting exporters in the export process, one of which is Export Vlaanderen, which is the official institution for export promotion. This institution uses a programme known as the 'exportmeter' to assist exporters to measure export readiness. Export Vlaanderen provides exporters with country-related information and also helps exporters to build up

contacts through their economic representatives abroad. They also provide individual advice and assistance, through export advisers in each region in the country.

The 'exportmeter' provides expert advise on the operations of a company, measures a company's current status and highlights its weak points. It provides recommendations for solutions to these problems, thus recommending methods for short-, medium- and long-term actions to build up a strong basis for exports (Export Vlaanderen, 2003).

Therefore, companies in Belgium are assured of assistance from government on all levels of exports, from determining if the company is export ready, through the export process and being provided with information on all levels of export. By establishing contact with Export Vlaanderen in Brussels as well as in Johannesburg, it was possible to relate their export promotion to that offered in South Africa.

These five countries each show a consistent growth in exports over recent years, and it can be positively linked to the assistance programmes offered to exporters and potential exporters. These countries assist exporters from the first stages in establishing their export readiness status, to developing the company to readiness status and assisting them in the export process with the provision of information as well as financial resources. It is thus necessary to examine the assistance that is provided in South Africa to be able to make recommendations on the improvement of the system.

3.4 EXPORT PROMOTION IN SOUTH AFRICA

Support is growing stronger for the application of an export-led economic growth strategy in South Africa. Local policy makers have over the past few years expanded its potential benefits and, as South Africa has regained acceptance in international markets, there is no doubt that the encouragement of exports is a pivotal aspect of the country's economic policy (SAFTO/BMI, 1993:77). Through the different economic strategies like RDP and GEAR,

government has been able to create an integrated manufacturing strategy aimed at overall growth.

Government is responsible for creating a positive trading environment for exporters. This includes a favourable government policy towards international trade, tax regulations, provision of infrastructure and the negotiation of favourable trade agreements with selected countries (DTI, 1997:25). One of the primary roles of government, from the exporter's point of view, is to negotiate equal market access for his or her products for an international market.

When Trade and Investment South Africa (TISA) was formed in 2000 as a division of the Department of Trade and Industry (DTI), the original investment promotion agency, Investment South Africa (ISA) and the export functions of the DTI were merged to form a single organisation. TISA is responsible for stimulating foreign direct investment and exports of South African goods and services to international markets. As part of the country's national economic strategy, TISA is tasked with identifying and targeting key high-growth sectors and enjoys direct access at the highest levels to both South African business sectors and trading partners. Thus, TISA is the essential point of contact for anyone involved in investment and export promotion in the country.

Locally, TISA functions under the umbrella of the DTI, a broader family of institutions controlling state assets in excess of R25bn and led by Minister Alec Erwin. A number of units dedicated to specific aspects of the business process operate with TISA. Sector specialists and strategic analysts work together to oversee targeted export objectives. Simultaneously, logistics specialists who are located in the Enterprise Industries Development Division (EIDD), of the DTI identify and take steps to eliminate bottlenecks in the supply chain, for both exporters and investors alike. Thus, the DTI provides a single-transaction arena for investors and exporters at a national level. TISA is also mandated to co-ordinate provincial initiatives to match investor requirements with opportunities available within each of the nine provinces

(EMIA, 2003:iv). TISA focuses on promoting sectors of the South African economy that have shown the greatest growth potential and marketability.

TISA identifies opportunities and provides core-market intelligence in 48 regional offices within South Africa's diplomatic centres worldwide. Key investors are targeted in priority-growth sectors and specific sectoral expertise is added to the equation. The regional managers operate according to international best practice standards, pioneered by leading trading nations such as Singapore and Ireland. The drawback is that these have rarely been evaluated to determine their effectiveness and efficiency.

The export process is sector specific, and sector strategies offer the framework within which exports are encouraged and incentivised. These strategies address competitive issues and international best practice standards regarding the product. TISA claims that their sector specialists have a clear understanding of, and access to, the various industries. Hence, they are able to provide sound advice, recommendations and assistance – information that is invaluable to the potential exporter (EMIA, 2003:vi).

TISA provides a Customer Care service for manufacturers, a facility that offers information and advice on current export processes and procedures. TISA is also mandated with developing small and black exporters and to manage the Export Marketing and Investment Assistance Scheme (EMIA) as a key enabling incentive.

3.4.1 Export Marketing and Investment Assistance Scheme (EMIA)

The DTI has developed the EMIA scheme to support companies in exporting. TISA is responsible for the management of the EMIA scheme. The purpose of assistance under the EMIA scheme is to partially compensate exporters for certain costs incurred in respect of activities aimed at developing export markets for South African products and to recruit new foreign direct investment into South Africa. The DTI provides the following contributions for the various schemes (EMIA, 2003; Sacks, 2001:6):

- 50% to 80% of an economy class return airfare ticket.
- A subsistence allowance of R1 000 per day for a maximum of 15 days, including transport and weekends (subject to criteria).
- Up to R1 000 for the transport of samples.
- Up to R10 000 for the design and printing of export brochures, promotional videos or CDs (annual maximum).
- Up to 50% of the cost of registration of products in the export market or an annual maximum of R100 000 whichever cost is less.
- Up to R25 000 towards the cost of an international marketing consultant for industry-specific sectors.

3.4.2 Components of the EMIA scheme

3.4.2.1 Primary Market Research

Assistance is provided to partially compensate exporters for costs incurred in developing new export markets. This includes registration of patents, trademarks and quality marks.

3.4.2.2 Foreign Direct Investment Research

Assistance is provided to persons for costs incurred in recruiting new foreign direct investment into South Africa through personal contact by visiting potential investors in foreign countries.

3.4.2.3 Individual participation in Exhibitions

Assistance is granted to individual exporters to exhibit products at exhibitions abroad where TISA does not provide for a National Pavilion.

3.4.2.4 National Pavilions

Assistance is provided to South African exporters to introduce South African products into foreign markets by participating in suitable foreign exhibitions. This scheme applies to exhibitions in which South Africa participates officially by means of a national

pavilion. TISA makes arrangements and bears cost of space rental, construction and maintenance of stands, electricity and water charges as well as freight costs up to a maximum of three cubic meters or two tons per exhibitor.

3.4.2.5 Outward Selling Trade Missions

Assistance is provided to South African exporters who wish to make contact with foreign buyers with a view to concluding new export orders.

3.4.2.6 Outward Investment Trade Missions

Assistance is provided to South African enterprises participating in Outward Investment Recruitment Missions with a view to encourage and attract foreign direct investment into South Africa.

3.4.2.7 Inward Buying Trade Missions

Assistance is provided to organisers of inward buying trade missions to enable prospective buyers to make contact with South African exporters to conclude export orders. The mission must be organised by a qualifying organisation, export council or TISA.

3.4.2.8 Inward Investment Missions

Provide assistance to organisers of inward investment missions to facilitate foreign direct investment in South Africa.

3.4.3 Who qualifies for assistance under the scheme

Assistance is granted to registered South African exporters who are:

- South African manufacturers of products including SMME or other owned businesses;
- Certain South African service businesses;
- South African export trading houses; or

- South African commission agents representing at least three SME's;
- South African Export Councils (specific industry sectors).

Although this seems positive, it is still essential that a critical analysis be performed to determine whether EMIA is helping the right organisations.

3.4.4 The Success of EMIA

In an interview between Global Trade and Christian Saaiman (Kingham, 2003:36), director of EMIA, approximately 60% of EMIA's candidates manage to sell goods or secure orders on their first trip abroad. However, creating a sustainable export market takes greater skills. The fumbling of novice exporters has earned South Africa the uncomfortable reputation of being a country that over-promises on exports, and then can't always deliver the quantities or quality of goods demanded by international clients (Kingham, 2003:36). Only 20% of EMIA's candidates can realistically be expected to create sustainable export markets.

The most successful new exporters in 2002 were in the cultural-industries sectors, which incorporates arts and crafts, souvenirs, clothing and interior-design items made using traditional materials and methods. This sector was closely followed by agro-processing, furniture, metals, textiles and IT/electronics. It is though not clear what the reasons are for these sectors being most successful. It is necessary to determine whether these are the only sectors that were truly successful, or if they were only successful due to extensive assistance received.

According to TISA's 2002 report South African exports have risen to 19% of GDP and are increasing in volume each year. Between 1992 and 2002 the value of exports rose from R60-billion to R291-billion nominally. This growth would have been highly unlikely without the concerted support of government initiatives to overcome the inherent size limitations of the local market. There is no doubt that government is committed to supporting exports. The problem,

though, still lies in the first stages of exporting, and companies start exporting without truly being export-ready and therefore the high failure rate (Kingham, 2003:37). It is from this conclusion that the next chapter is derived.

3.5 CONCLUSION

It has become clear in the previous chapter that a company has various factors to consider before attempting to export its product. The evaluation of these factors can help determine whether the company should avoid exporting at first and rather focus on developing the company to a level where it will be more export ready, or whether it is export ready and should start focussing on its export strategy. The company should also evaluate the various export barriers and determine whether it can be overcome or will stand in the company's way of success.

From the examination of the other countries, it is clear that South Africa are still not assisting their companies as effectively as they could. The companies are assisted in ways in which government thinks best, but it is still possible that they are not catering to the true needs of companies and that they are not providing the right information. Further studies are necessary to determine the true efficiency of South Africa's trade promotion and assistance.

Before any assistance is offered to any exporter, TISA should help the company to determine whether it is export ready and will stand a chance of success. In doing this, they currently use a specific Export Readiness Questionnaire, which assesses the different factors mentioned in the previous chapter.

The next chapter is aimed at assessing and evaluating this questionnaire to determine its effectiveness. It will therefore be possible to provide recommendations for the improvement of the questionnaire, and therefore the efficiency of the EMIA scheme.

CHAPTER 4

EMPIRICAL STUDY

4.1 INTRODUCTION

One of the first steps in Trade and Investment South Africa's process of determining whether a company is export ready and may receive assistance, is by completing an Export Readiness questionnaire. TISA currently uses two questionnaires; an extensive, detailed questionnaire in which relevant information is requested, and also a short, desktop-version questionnaire in which only the basic factors of export readiness are evaluated to obtain an initial impression of the company's export readiness.

During the course of this study, TISA determined that their short questionnaire does not deliver the results they need before any further investigation into a company can be made. The personnel at TISA acknowledged that the existing questionnaire was not scientifically designed and the outcomes were not convincing of the export readiness of companies. It was therefore requested that a new desktop-version questionnaire be developed, as their current short questionnaire is seen as inefficient and does not deliver the necessary results.

In compiling a new questionnaire, it was necessary to examine the Export Readiness questionnaires currently used locally, as well as questionnaires from various different countries. The questionnaires currently used by TISA were examined, as well as the questionnaire used by NTSIKA, the local enterprise promotion agency. Questionnaires were also obtained and examined from other countries, such as Canada, the Netherlands, the USA, Malaysia, and a variety of organisations, such as the Centres for International Trade Development (CITD), PA Source Net, Trade Port, Trade Point and The Burbank Group. Many of these were not questionnaires in nature, and were

only information provided on export readiness factors, but those that were in the form of a questionnaire, are attached in Annexure C.

By examining a total of 10 questionnaires, it was possible to determine the most frequently asked questions, and therefore be able to derive a questionnaire with the most important questions. After consultation with the personnel of TISA, it was possible to compile a pilot questionnaire, consisting of 30 questions, 6 of which focussed on company details, and the other 24 focusing on export readiness factors, such as management commitment to exports, export administration skills, capacity to supply, quality management and technical know-how, financial resources and competitive intelligence. This questionnaire is attached in Annexure A.

The questionnaire was then piloted by TISA to 30 randomly selected, potential exporters applying for assistance through the EMIA scheme. The 30 questionnaires were then examined statistically, and the methodology and results will be discussed in the next sections.

4.2 BACKGROUND TO THE STATISTICAL ANALYSIS

Most theories in the social and behavioural sciences are formulated in terms of hypothetical constructs that cannot be observed or measured directly. The measurement of a hypothetical construct is accomplished through one or more observable indicators, such as was done in this study, through responses to questionnaire items, that are assumed to represent the constructs adequately (Jöreskog & Sörbom, 1993).

In theory, the researcher defines the hypothetical constructs by specifying the dimensions of each. The theory further specifies how the various constructs are postulated to be interrelated. Since the theoretical constructs are not observable, the theory cannot be tested directly. All one can do is examine the theoretical validity of the postulated relationships in a given context. The validity of constructs is a necessary condition for theory development and

testing (Steenkamp, 1991:283). Construct validity is the degree to which a construct achieves empirical and theoretical meaning.

Before the theory can be tested empirically, a set of observable indicators must be defined for each dimension of each construct, as has been done in this study. The theoretical relationships between the constructs constitute the structural equation part of the model, and the relationships between the observable indicators and the theoretical constructs constitute the measurement part of the model.

Firstly, it is important to define and explain principal component analysis. Principal components are uncorrelated linear combinations of observed variables that account for maximum variance in the observed variables. In other words, it defines those components that carry the largest weight in a study. The results of principal components depend on the unit of measurement in the observed variables. Principal components are best applied to variables which are measured in the same units of measurements and which have approximately the same variance (Jöreskog *et al*, 1993).

Furthermore, it is important to distinguish between exploratory and confirmatory analysis. In an exploratory analysis, one wants to explore the empirical data to discover and detect characteristic features and interesting relationships without imposing any definite model on the data. An exploratory analysis may be structure generating, model generating, or hypothesis generating. In confirmatory analysis, on the other hand, one builds a model assumed to describe, explain, or account for the empirical data in terms of relatively few parameters. The model is based on *a priori* information about the data structure in the form of a specific theory or hypothesis, a given classificatory design for items or subtests according to objective features of content and format, known experimental conditions, or knowledge from previous studies based on extensive data (Jöreskog, Sörbom, Du Toit & Du Toit, 2000:143). It is widely recognised that exploratory factor analysis can be quite useful in the early stages of experimentation or test development.

In this study the test sample of 30 potential exporters was relatively small and therefore it was only possible to perform a principal component analysis and an exploratory factor analysis. The results will be discussed in the following sections.

4.3 COMPOSITION OF THE SAMPLE

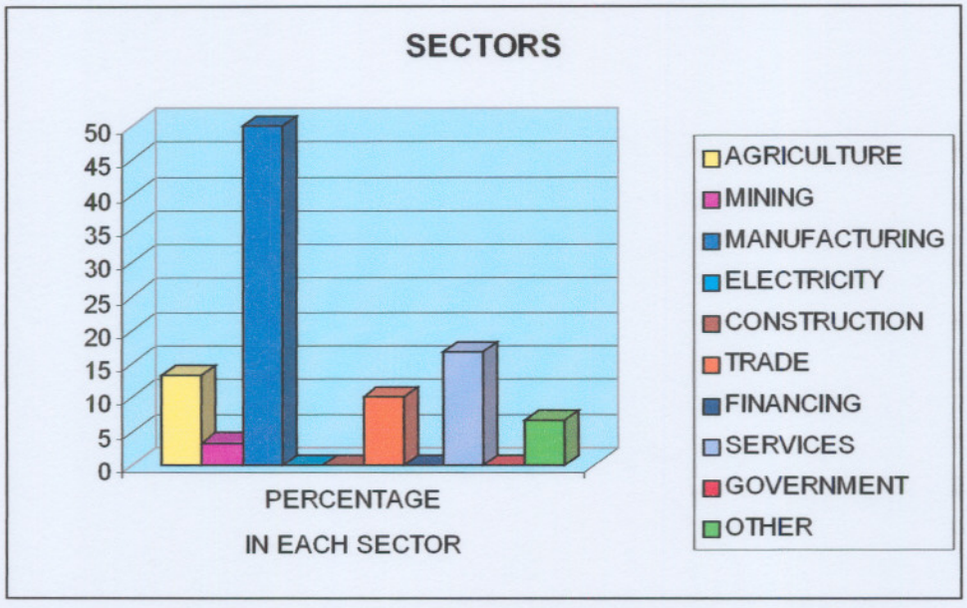
It is firstly important to describe the companies that participated in the study, according to the first six questions that were asked about their profile. It is important to notice that it is not possible to derive conclusions about the total population of exporters, as the sample was not chosen to be representative of all exporters. TISA piloted the questionnaire to the first 30 exporters that they dealt with after the questionnaire was given to them. The sample is therefore not representative of sectors, size, number of years in operation or province.

In the first question, the participants were requested to specify the specific sector in which their company operates. The results showed the following:

TABLE 1: SECTORS

SECTORS	PERCENTAGE
AGRICULTURE	13.3
MINING	3.3
MANUFACTURING	50.0
ELECTRICITY	0
CONSTRUCTION	0
TRADE	10.0
FINANCING	0
SERVICES	16.7
GOVERNMENT	0
OTHER	6.7

FIGURE 1: SECTORS



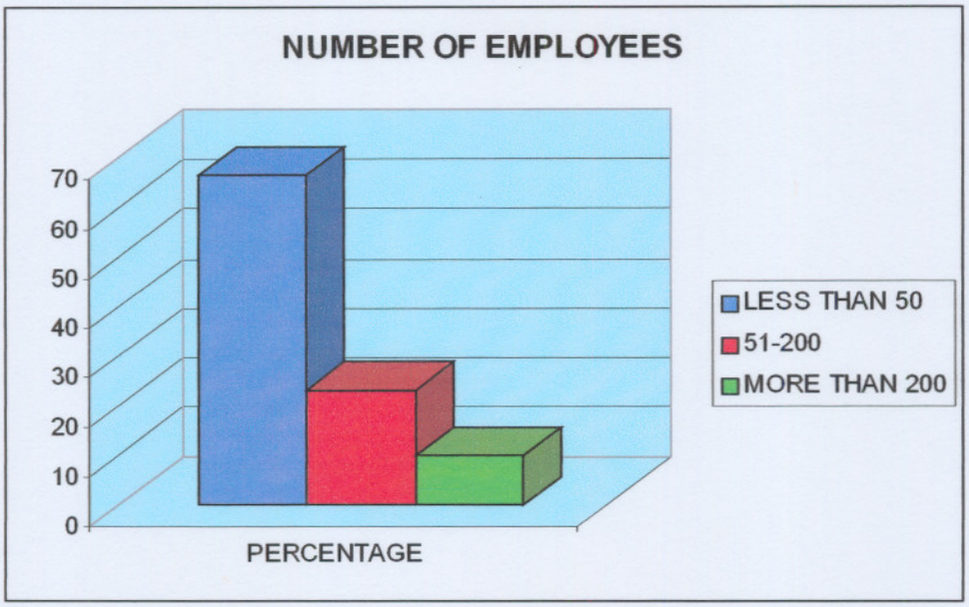
It is clear that most of the participants (50%) operate in the manufacturing sector, with the second largest being services (16.7%) and the third largest being agriculture (13.3%).

Secondly, the participants had to specify the number of staff the company currently employed, with the three sections being less than 50, 51-200, and more than 200 employees. The results showed as follows:

TABLE 2: NUMBER OF EMPLOYEES

NUMBER	PERCENTAGE
Less than 50	66.7
51-200	23.3
More than 200	10.0

FIGURE 2: NUMBER OF EMPLOYEES



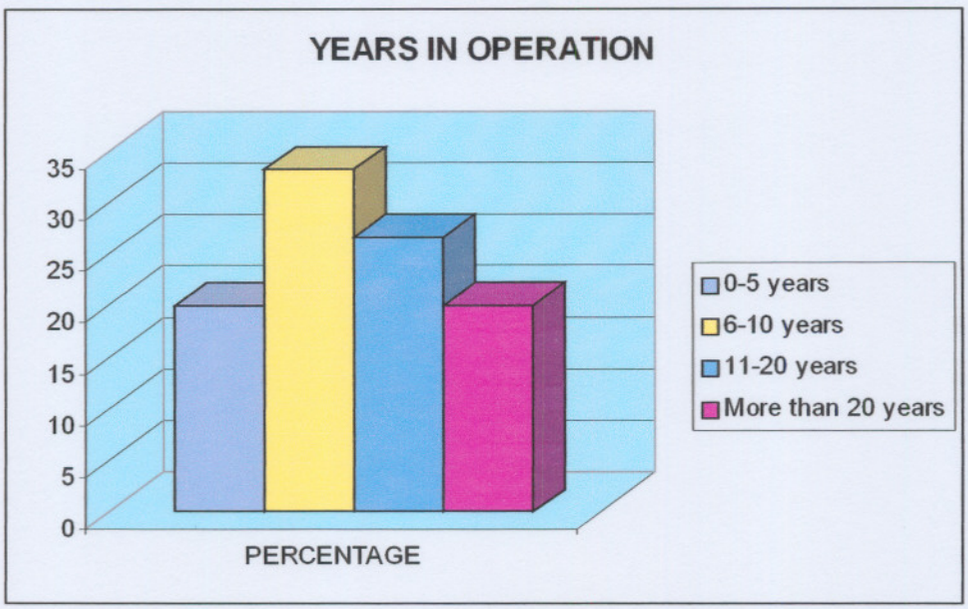
It is clear that most companies (66.7%) that participated in the study are SME's, with less than 50 employees, with the second largest (23.3%) being companies with employee numbers between 51 and 200, and the smallest percentage (10%) of companies having more than 200 employees.

Thirdly, participants were asked to provide the number of years the company has been in operation. The results showed the following:

TABLE 3: YEARS IN OPERATION

YEARS	PERCENTAGE
0-5 years	20.0
6-10 years	33.3
11-20 years	26.7
More than 20 years	20.0

FIGURE 3: YEARS IN OPERATION



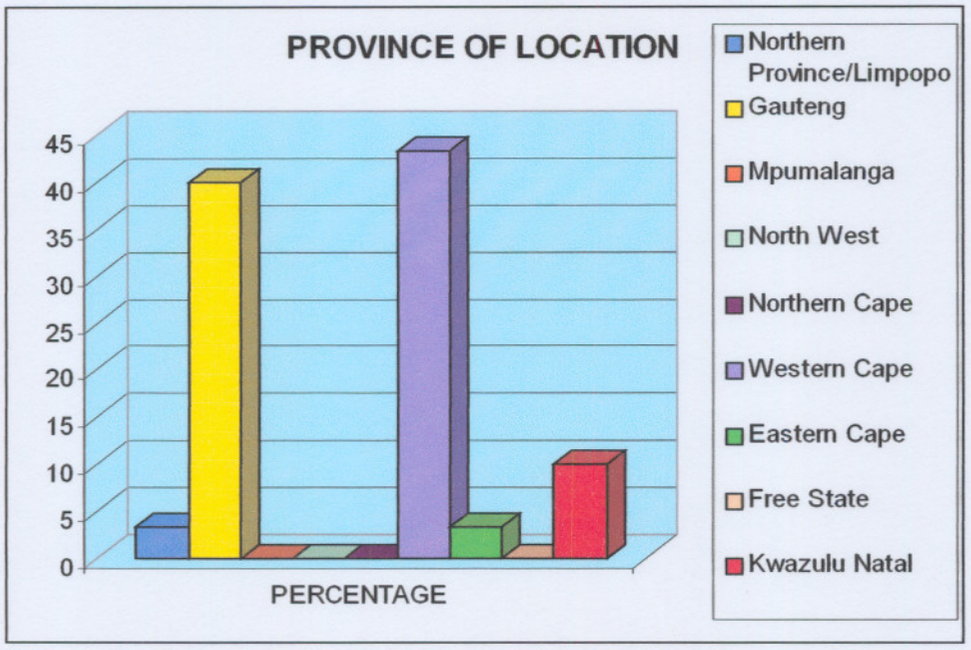
From these results it appears that most companies (33.3%) participating in the study have been operating between 6 and 10 years, with the second highest (26.7%) being in operation between 11 and 20 years.

Fourthly, it was important to enquire in which province the companies were located, which delivered the following results:

TABLE 4: PROVINCE OF LOCATION

PROVINCE	PERCENTAGE
Northern Province/Limpopo	3.3
Gauteng	40.0
Mpumalanga	0
North West	0
Northern Cape	0
Western Cape	43.3
Eastern Cape	3.3
Free State	0
Kwazulu Natal	10.0

FIGURE 4: PROVINCE OF LOCATION



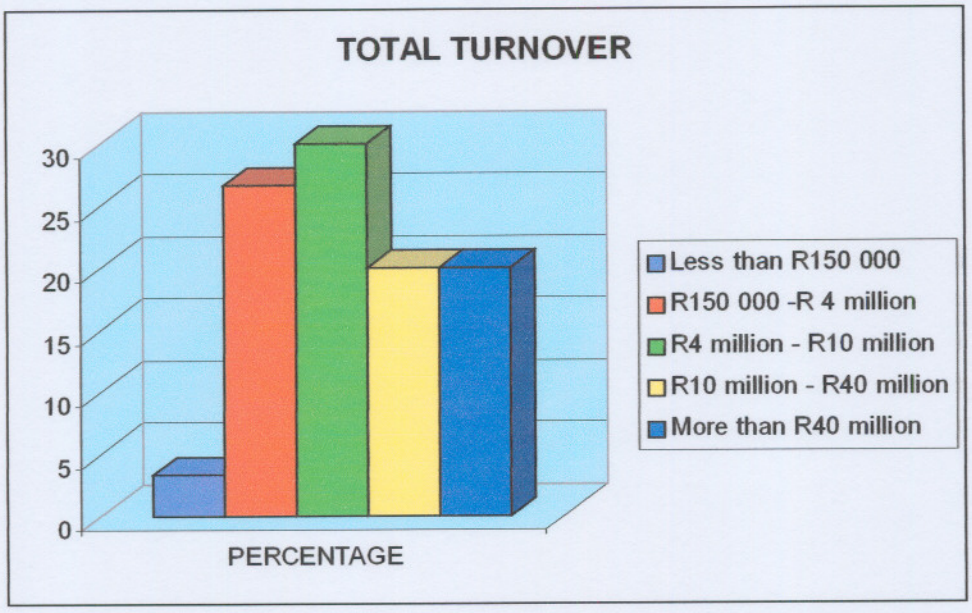
An interesting result was found, as most of the participants' companies (43.3%) were located in the Western Cape, and the second most (40%) in Gauteng. The rest were spread between Limpopo, the Eastern Cape and Kwazulu Natal.

As a fifth question, participants were asked to provide their total turn over in the last financial year. This was categorised in 5 sections according to TISA's specifications, as shown in the results:

TABLE 5: TOTAL TURNOVER ANNUALLY

TOTAL TURNOVER	PERCENTAGE
Less than R150 000	3.3
R150 000 -R 4 million	26.7
R4 million - R10 million	30.0
R10 million - R40 million	20.0
More than R40 million	20.0

FIGURE 5: TOTAL TURNOVER ANNUALLY

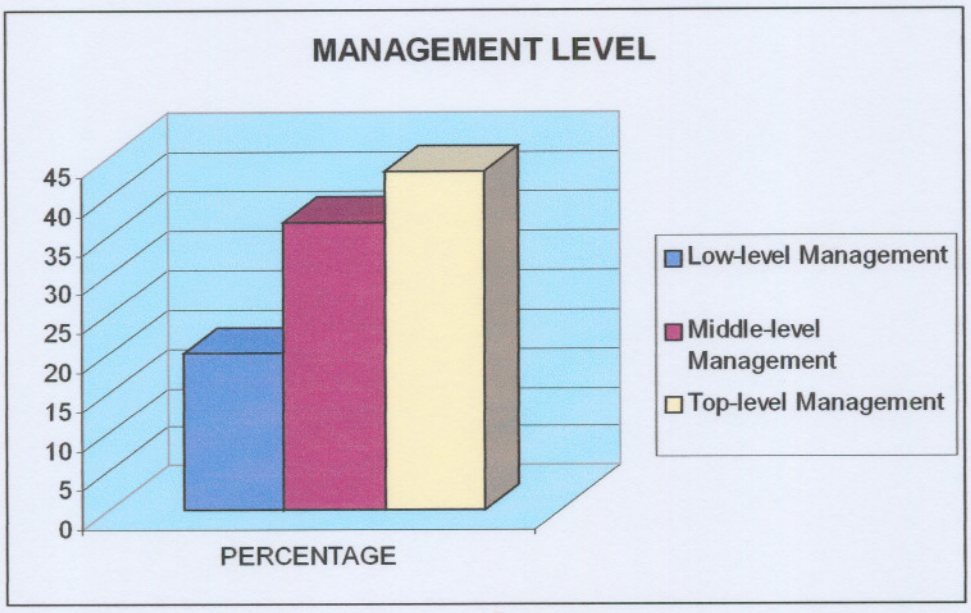


Finally, the person that filled in the questionnaire had to specify the position held within the company. This was categorised between low-level management, middle-level management and top-level management. The participants were divided as follows:

TABLE 6: MANAGEMENT LEVEL OF PARTICIPANT

MANAGEMENT LEVEL	PERCENTAGE
Low-level Management	20.0
Middle-level Management	36.7
Top-level Management	43.3

FIGURE 6: MANAGEMENT LEVEL OF PARTICIPANT



After the participants had provided the above company details, they proceeded to the second section of the questionnaire that focussed on export readiness constructs, to determine the company's level of expertise and capacity in each construct field. These results will be discussed in the next section.

4.4 EXPORT READINESS ASSESSMENT RESULTS

The next 24 questions were based on the various export readiness factors necessary for the company to be successful in export markets. These questions were initially divided under six fundamental constructs, namely management commitment to exports, export administration skills, capacity to supply, quality management and technical know-how, financial resources and competitive intelligence. These questions were then asked randomly so as not to lead the exporter in a direction by giving the specific construct the question falls under. The results will, however, be discussed according to the various constructs so as to be able to place the questions into context.

4.4.1 Management Commitment to Exports

Three questions were asked to the participants in order to obtain information on management's commitment to the export process. These three questions had the following results:

Firstly, the participants were asked whether they are convinced that export are an important aspect of their company's future survival. The results showed that all 30 participants agreed to this statement and recognised the importance of exports to their company's future.

Secondly, the participants were asked whether they are able to commit a substantial amount of time to developing an international market, thereby reorganising the amount of time spent on all other company aspects to make space for the export process. The results showed that 93.3% of the participants are willing to commit a substantial amount of time to exporting, while only two participants, comprising 6.7% of the sample, are not willing to make substantive time for this process.

Thirdly, the participants were asked whether they are prepared to rearrange the way their business operates to become internationally competitive. In this case, 96.7% of the participants agreed that they would be willing to do this, while only one participant, comprising 3.3% of the sample, was not willing to do this.

Therefore, it is clear that most potential exporters realise the importance of being fully committed to the export process and merging it with other activities of the company.

4.4.2 Export Administration Skills

Six questions were asked in this category to determine the level of skills and knowledge that potential exporters possess about the export process and the complexity it involves.

Firstly, participants were asked whether they have sufficient resources to handle administration matters efficiently, to which all participants agreed.

Secondly, they were asked whether they have an efficient communication system (e.g. telephones, fax, e-mail) in place to respond to enquiries, complaints, etc. To this question all participants agreed that they do have efficient communication systems available.

Thirdly, participants were asked whether they have experience in selling products to other countries, to which all agreed as well.

Fourthly, all participants agreed that they do have experience in processing export orders.

Fifthly, all participants acknowledged that they have an understanding of export procedures and the various role players.

Lastly, all participants stated that they have experience in order to develop an export-marketing plan.

Therefore, it seems that companies recognise the need for an understanding of the export administration skills necessary to process export orders successfully.

4.4.3 Capacity to Supply

The third construct is related to the companies' practical side, therefore their ability to cope with larger orders once export markets have been secured. Under this subject, three questions were asked, with the following results.

Firstly, all participants agreed that they have a product/products, which have been successfully sold in the domestic market.

Secondly they were asked whether they have spare capacity and can increase their capacity by about 30% at short notice, without any major capital equipment. To this question 90% of the participants agreed, with 10% not being able to increase their supply rapidly.

Thirdly, participants were asked whether their production were consistent in volume and capacity. To this, 96.7% of the participants agreed, with only one participant, comprising 3.3% of the sample, recognised that their production was not consistent.

Therefore, it is clear that potential exporters realise the need to expand their business and that they need to be able to handle larger orders rapidly without affecting their local operations. With regard to the second question, a substantial number of the participants (10%) were not able to increase their capacity rapidly. By assessing the results, it became clear that the reason for this was that these participants are all operating in the manufacturing sector, with a small number of employees, less than 50, and a total turnover of R4 – 10 million per year. It is thus clear that these companies are small companies and do not possess the resources and capacity necessary to supply a larger amount of products within a short period of time.

4.4.4 Quality Management and Technical Know-how

Four questions were asked in this category to determine companies' level of quality control as well as their knowledge of the influence exporting will have on their production process.

Firstly, the participants were asked whether they have a quality management/assurance/control system in place, to which 93.3% of participants agreed, and 6.7% did not agree.

Secondly, they had to state whether they have undertaken research and development in order to improve their products' features or range of products, to which all participants stated that they have.

Thirdly, they were asked, if relevant, whether their products comply with a recognised South African (SABS) and/or other international standard and/or specification. To this question 53.3% of participants stated that their products do comply, whereas 46.7% regarded the question as not applicable to their product, therefore it not being necessary for their product to comply to any standards.

Fourthly, they were asked whether they have access to the technical expertise required to ensure that their product is suited to international markets in terms of quality and function. To this, 96.7% agreed that they do have expertise available in this regard, with 3.3% not agreeing.

The question that stands out in this construct, is the one regarding standards compliance, with only 53.3% acknowledging that their product to comply to the necessary standards, and the other 46.7% deeming it not necessary for their products to comply to any standards whatsoever. This group consists mainly of companies in the manufacturing and services sectors, and seem small, with most having less than 50 employees and a total turnover of R4 – R10 million a year. This implies that most small companies feel that their products either do not have to comply with any standards, or are perhaps not aware of the required standards that their products will have to comply with for the export market. Further study into this is needed to determine the reason for the low number of companies complying with standards.

4.4.5 Financial Resources

In this regard, it is necessary to determine whether potential exporters have the financial capability to cope with extensive export expenses. Four questions were asked in this regard.

The first asked participants whether they have a recent financial report (profit and loss statement and balance sheet), to which all agreed.

Secondly, participants were asked whether they have, or have access to, adequate financial resources to support an export marketing development programme. To this question only 70% of participants agreed, while 30% stated that they do not have adequate financial resources to support the development programme.

Thirdly they were asked whether they could afford to invest in adapting their product/package if required, to which all participants agreed.

Lastly they were asked whether their turnover had grown over the last 2 years. To this question, 96.7% of the participants agreed that their turnover did grow over the last 2 years, whereas 3.3% stated that theirs didn't.

It seems clear that a substantial group of potential exporters are not export ready for the reason that they do not have the financial resources to cover the expenses related to exporting. This is seen from the results of the second question, where 30% acknowledged that they do not have adequate financial resources available to support an export development plan. By studying the results, it became clear that most of these companies operate in the manufacturing and agricultural sectors. The majority of these companies are relatively small, with either less than 50 employees, or 51 to 200 employees, and a relatively small turnover. This implies that most small companies do not have the necessary financial resources to finance the export process, and will need assistance from government or other institutions.

4.4.6 Competitive Intelligence

The last construct surrounds the concept of competitive intelligence (CI), which can be defined at a simplistic level as information that makes a firm more competitive. The fuller definition of competitive intelligence is the art and science of preparing companies for the future by way of a systematic knowledge management process. It is creating knowledge from openly available information by use of a systematic process involving planning, collection, analysis, communication and management, which results in

decision-maker action (Calof & Viviers, 2001:62). This is an integral part of any business's success, and four questions were asked in this regard.

The first question asked whether the company has a marketing strategy/plan (including product, price, distribution and promotion). To this question all participants agreed.

Secondly, they were asked whether they regularly collect/gather information on competitors, their products and prices on an informal or formal basis, to which all participants agreed.

Thirdly, they were asked whether they have knowledge of potential buyers of their products, to which they all agreed.

Lastly, participants were asked whether they have information on the size of the world market for their product, to which only 76.7% agreed. The other 23.3% do not have the necessary information on the world market for their products.

In total, most potential exporters do perform competitive intelligence in either an informal or formal manner, but all realise the importance of doing so for the survival of their company. From the results 23.3% of the participants admitted not to have the necessary information on the world market for their products available. These companies operate in the manufacturing, services or agricultural sectors, and the majority of them have less than 50 employees. Most of them have also only been in operation for 6-10 years. Therefore it is possible that these companies do not have the necessary critical mass, or are unaware of institutions that can provide them with the necessary information. This poses a problem, as any potential exporter needs to have access to all possible information on the sector, the competitors, potential buyers, and the world market for the products. This aspect is currently under consideration in a study undertaken by researchers from the PU for CHE, the University of Antwerp and the University of Brussels, to compare the CI practices of South African and Flanders exporters. Recommendations on how to improve CI

capabilities of exporters will benefit the competitive situation of exporters who take action to improve their CI practices.

4.4.7 Export Assessment Conclusion

From examining the above results, four areas are highlighted where potential exporters are posed with problems. These four are the following:

- Potential exporters do not necessarily have the capacity available to expand production rapidly to supply in larger demand from foreign markets in addition to the local demand. Companies need to ensure that this is feasible in their operations, and government needs to determine which measures can be taken to assist companies in this.
- Secondly, the problem of standards compliance arises. A large percentage of exporters feel that complying with standards, local or international, is not applicable to them. This may be because of the nature of their product, or because they are not aware of the standards and requirements their specific products need to comply with in order to be accepted abroad. A more extensive study is needed to determine the reasons for non-compliance.
- Thirdly, it became clear that most small companies do not have access to the necessary financial resources to be able to develop an export programme for their company.
- Lastly, many companies, mostly smaller and not in operation for a very long period, do not have access to the necessary information on world markets and this implies, overall, that potential exporters do not perform competitive intelligence as extensively as would be desirable. Performing competitive intelligence is a very important function a company needs to perform if it wants to be successful in export markets. It provides them with the advantage to better plan their operations and marketing plans by knowing what the rest of the market is doing. Hence, the fact that many companies do not perform competitive intelligence, poses a real problem.

The next step in the empirical study was to analyse the data more extensively through a statistical program in order to make more substantive conclusions. This process is discussed in the next section.

4.5 FACTOR ANALYSIS RESULTS

The program LISREL 8, a statistical package of SSI, was used to factor analyse the data. A two-factor solution proved to be the most interpretable factor structure, with these two components weighing 78% of all the factors. Thus all factor loadings for these variables are known. To estimate the factor loadings for the other variables, the relationship between each of these using all the others as instrument variables was estimated. This was done by using the unrotated solution, the varimax solution and the promax solution. The difference being that in the varimax solution, the factors are still uncorrelated, while the promax solution correlates the factors (Jöreskog *et al*, 2000).

From the 24 items that were included in the analysis, 13 items loaded onto the two factors. Based on the interpretation of the items that were loaded on the two scales, they were labelled 'current capacity' and 'internal structure'.

Detail on the items of each factor is provided as follows:

- Factor 1 – Current Capacity:
  All the items that load onto factor one pertained to the existing resources and knowledge available to the company, as well as their current status in the market. This factor included five items relating to the subject. Only one item was the exception, relating to management's commitment to the exports.

- Factor 2 – Internal Structure:
  The second factor included eight items relating to the internal structure in place in the company, such as quality control system, financial report system, marketing strategy/plan, communication system and market

information system (i.e. competitive intelligence practices). The exception being one item relating to standards compliance.

The final 13 items derived from the factor analysis were tested for their reliability by submitting them to item analysis, using the varimax solution, which requires that factor loading are only viable of it loads more than 0.6 on the one factor, and simultaneously less than 0.35 on the other factor. Rules of thumb suggest that the item should not load more than half on the other factor. This resulted in the final sorted factor loading matrix set out below.

TABLE 7: FACTOR LOADING MATRIX

Sorted Varimax-rotated Factor Loading Matrix		
ITEM	**FACTOR 1**	**FACTOR 2**
	Current Capacity	**Internal Structure**
Q7	**0.864**	0.042
Q8	**0.864**	0.042
Q9	**0.864**	0.042
Q24	**0.867**	-0.498
Q25	**0.867**	-0.498
Q10	0.035	**-0.906**
Q11	0.035	**-0.906**
Q12	0.035	**-0.906**
Q13	-0.012	**-1.000**
Q14	0.318	**-0.948**
Q17	-0.044	**-0.975**
Q22	0.041	**-0.845**
Q30	-0.252	**-0.968**

Relating this table back to factors 1 and 2, it is clear that the most obvious problems were seen in the two fields, current capacity and internal structure. This again proves more extensively the conclusions that were made from the export assessment results. Most potential exporters seem to experience their biggest drawbacks from exports in internal operations, namely production capacity and financial resources. They also have two other internal barriers, compliance to standards and world market information. With regard to the former, it has already been noted that further studies are needed to determine

why companies do not feel they need to comply with any standards. With regard to the latter, it is clear that the concept of competitive intelligence is not seen as an essential part of a company's operations, and this needs to be brought to their attention.

As the study delivered only 30 test samples, it was statistically not possible to do more extensive analyses. To be able to do a more detailed study, it would be necessary to pilot these questionnaires to more than 50 potential exporters, which is recommended if more extensive results are needed. For the purpose of this study, the results from this study were sufficient.

4.6 COMPANY IMPLICATIONS

It becomes clear from these results that it is incredibly important for potential exporters to realise the need for stability in the current situation. A company needs to be settled in the local market, with a sustainable, efficient operational system. The production capacity and financial resources need to be in place before any attempt can be made to export. The company also needs to be willing and able to do efficient research on potential export markets, as well as realise the importance of an export development programme, by including extensive competitive intelligence practices.

Companies need to realise the implications of the export process, therefore they need to realise the extent of processing an export order and the technicalities involved. They also need to realise that supplying any product abroad implies that the product will need to comply with strict standards and requirements, and therefore they need to ensure that their product adheres to this compliance.

4.7 ASSESSMENT IMPLICATIONS

By analysing the discussed results it became possible to develop a new, improved, statistically verified, shortened questionnaire for TISA. The initial request was for a questionnaire consisting of no more than 15 questions, for

the reasons of time-efficient investigation into the companies. This implies that many of the questions have to be re-evaluated and merged into fewer questions. The above-mentioned results from the previous paragraphs were examined extensively to be able to compile the required 15 questions for the recommended questionnaire.

The recommended questionnaire consists of the initial 6 questions relating to company details, and 15 questions relating to export readiness assessment. It was also possible to shorten or completely leave out the company details questionnaires for desktop purposes. The recommended short questionnaire is shown in Annexure B.

4.8 CONCLUSION

The South African government, and more specifically, TISA realises the need for a more efficient and extensive assistance programme in order to further increase overall exports. The improvement of the current system starts at the first steps of support given, namely helping companies to determine whether they are export ready. To make this process more effective, it was necessary to improve the quality of TISA's export readiness questionnaire.

Therefore, the empirical study surrounded the concept of improving the short questionnaire used by TISA currently. It was necessary to develop a pilot questionnaire to test on potential exporters before a final questionnaire could be recommended.

A variety of results emerged from piloting this questionnaire, as have been discussed in this chapter. Firstly, the results showed that most potential exporters realise the complexity of exporting and the implications it has on their company. It is not to say, however, that they have the knowledge or experience to develop an efficient export development programme on their own. As the questionnaire consisted only of yes/no questions, it is easy for a company to agree with a statement, only because they recognise the importance of it, rather than for the reason that the statement is truly present

in their company. It was therefore only possible to derive that they acknowledge the importance of various factors and processes involved in exporting.

The statistical analysis was used to further determine which factors are truly important to ask in a short questionnaire. The statistical analysis highlighted the importance of internal and operational stability, again noting the importance for the company to be stable and well established in order to be able to handle the pressure of entering foreign markets.

From this it became possible to develop the recommended questionnaire for TISA. The 15 recommended export readiness questions that have been compiled by extensively examining the export readiness assessment results that was discussed in the previous sections. The questionnaire still consists only of yes/no questions, and further study should be directed at improving this, but the recommended questionnaire is a definite improvement on the existing short questionnaire. The questions used are the most important characteristics necessary for a company to be described as export ready.

Final conclusions and recommendations will be discussed in the next chapter, as further study into the subject is absolutely essential for the improvement of South African exports.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

Improving international trade, and therefore increasing exports, is an important subject of discussion for policy makers. An increase in exporting is seen as critical for the development of any country, by ensuring economic growth and development.

In the initial stages of the study, the literature implied that potential exporters lack the knowledge of the complexity of exporting their products. Therefore, the first step was to outline the various factors that are necessary in the operations of a company for it to be defined as 'export ready'. These factors range from motivational and organisational factors to target market and product considerations. It has become clear that there is a lack in academic literature on this subject, and it needs to become a subject of importance to researchers in the process of understanding export readiness and helping companies understand the concept.

Thereafter the various trade barriers were outlined to inform companies of the impact these barriers may have on their potential export activities. These barriers vary from tariff barriers to non-tariff barriers and other barriers relating to internal perceptions. It is important to note that these barriers cannot necessarily be overcome and there will always be some form of obstacle present in the export process. It is therefore extremely important for companies to take note of the various barriers/obstacles, and thereafter determine how they will be dealt with. In understanding the trade barriers, potential exporters will feel more at ease at attempting to export and will not feel restricted by them.

Government assistance in the export process is incredibly important. By outlining government promotion in other countries in chapter 3, and thereafter outlining the assistance provided by the South African government, it became clear that export promotion in South Africa is still in its infant stages. The South African government provides sufficient financial assistance to potential exporters through the various financial assistance schemes, but the system lacks in other areas. During the course of this study, it became clear that a gap exists between the various government agencies in that they do not all provide the same assistance and information necessary to potential exporters. An integrated system needs to be created so that all agencies, especially TISA, are able to collaborate through their support activities and provide synchronised support.

There is also a lack in the availability of information on the export process, potential foreign buyers and potential markets. A system needs to be created through which a potential exporter is assisted from the initial steps of adapting and developing the company to be export ready, through the process of export programme development to the phase where the first export order is secured. Even from there on, exporters need a continuous flow of information and advice throughout their export activities, as well as advice and support in technical aspects of exporting. All agencies involved in export promotion in South Africa will need access to the same information, and regular updating of information is essential. This system is essential if government intends to provide the most efficient export assistance possible to the export society, which will guarantee an improvement of overall economic growth and development. After the completion of the empirical study, the above conclusion became even clearer.

The empirical study provided the base for developing an improved export readiness questionnaire to ensure that their assistance process becomes more efficient. The recommended questionnaire provides the essential questions that should be asked in the short desktop questionnaire. It is, though, recommended that this questionnaire be improved, by eliminating the yes/no basis of the questions, and rather creating a four or five point scale

(Likert scale) to which each question can be measured. It is also important that the results of the questionnaire be compared to the various constructs of export readiness to determine the specific company's export readiness level. It then becomes possible to evaluate these results and determine the specific areas in which each company needs improvement and assistance before being able to export successfully. More practical results can be derived from these questionnaires if it is based on an export readiness scorecard per construct. Therefore companies can be provided with results on each construct and they can more closely determine in which areas improvement is needed. Statistically, this will be more efficient as it will provide measuring instruments to trade promotion organisations, i.e. the questionnaire as well as the scorecard results. This is essential to prevent companies from securing their first export orders, but being unsuccessful in continuing the export process and merging it into their operations. This will therefore ensure that start-up exporters are successful and continue exporting from there on, creating a bigger export society for South Africa.

It also became clear from the empirical study that the area of concern lies with manufacturing SME's in that they seem to face the most problems. They do not have the financial back-up available and they do not receive the necessary support to be able to export. Therefore government needs to determine how SME's can be assisted more efficiently and be provided with the necessary information and skills.

Another recommendation is that a study be undertaken to perform the same analysis on TISA's extensive, detailed questionnaire in order to create a more efficient complete questionnaire which can be used after the results of the initial short questionnaire has implied that the company is potentially export ready. The longer questionnaire will also be a means of determining precisely which factors in the company needs improvement, and not only the area that needs improvement, as will be indicated from the results of the short questionnaire. Furthermore it is recommended that quantitative data be collected to evaluate export success against export support received.

Overall, it has become clear how important the subject of export readiness is, and yet the literature lacks in information on this subject. This is one of the few studies performed in this field, and a lot more needs to be done by the economic society to make this concept clearer to the business sector.

ANNEXURE A

PILOT EXPORT READINESS QUESTIONNAIRE

COMPANY DETAILS

Please mark the appropriate answer or complete where necessary:

1. Sector in which you are active:

Agriculture		Transport	
Mining		Financing	
Manufacturing		Services	
Electricity		Government	
Construction		Other (Specify)	
Trade			

2. Number of employees:

Less than 50	
51-200	
More than 200	

3. Years in operation:

0-5 years	
6-10 years	
11-20 years	
More than 20 years	

4. Province in which you are located:

Northern Province/Limpopo	
Gauteng	
Mpumalanga	
North West	
Northern Cape	
Western Cape	
Eastern Cape	
Free State	
Kwazulu Natal	

5. The total turnover in the last financial year:

Less than R150 000	
R150 000 – R4 million	
R4 million – R10 million	
R10 million – R40 million	
More than R40 million	

6. Your position in the company

READINESS ASSESSMENT

7. We are convinced that exports are an important aspect of our future survival.

YES | NO

8. We have sufficient resources to handle administration matters efficiently.

YES | NO

9. We have a product/products which have been successfully sold in the domestic market.

YES | NO

10. We have a quality management/assurance/control system in place.

YES | NO

11. We have a recent financial report (profit and loss statement and balance sheet).

YES | NO

12. We have a marketing strategy/plan (including product, price, distribution and promotion.)

YES | NO

13. We are able to commit a substantial amount of time to developing an international market.

YES | NO

14. We have an efficient communication system (telephone, fax, e-mail) to respond to enquiries, complaints, etc.

YES | NO

15. We have spare capacity and can increase our capacity by about 30% at short notice, without any major capital equipment.

YES | NO

16. We have undertaken research and development in order to improve our products' features or range of products.

YES | NO

17. We have, or have access to, adequate financial resources to support an export marketing development programme.

YES | NO

18. We regularly collect/gather information on competitors, their products and prices.

YES	NO

19. We are prepared to rearrange the way our business operates, to become internationally competitive.

YES	NO

20. We have experience in selling products to other countries.

YES	NO

21. Our production is consistent in volume and quality.

YES	NO

22. Our product(s) comply with a recognised South African (SABS) and/or other international standard and/or specification. (Mark N/A if not applicable.)

YES	NO	N/A

23. We can afford to invest in adapting our product/packaging if required.

YES	NO

24. We have knowledge of potential buyers of our product(s).

YES	NO

25. We have experience in processing export orders.

YES	NO

26. We have access to the technical expertise required to ensure that our product is suited to international markets in terms of quality and function.

YES	NO

27. We have an understanding of export procedures and the various role players involved in the export process.

YES	NO

28. Our turnover grew in the last 2 years.

YES	NO

29. We have experience in order to develop an export-marketing plan.

YES	NO

30. We have information on the size of the world market for our product.

YES	NO

We thank you for your time and effort to complete this questionnaire.

ANNEXURE B

RECOMMENDED EXPORT READINESS QUESTIONNAIRE

COMPANY DETAILS

Please mark the appropriate answer or complete where necessary:

1. Sector in which you are active:

Agriculture		Transport	
Mining		Financing	
Manufacturing		Services	
Electricity		Government	
Construction		Other (Specify)	
Trade			

2. Number of employees:

Less than 50	
51-200	
More than 200	

3. Years in operation:

0-5 years	
6-10 years	
11-20 years	
More than 20 years	

4. Province in which you are located:

Northern Province/Limpopo	
Gauteng	
Mpumalanga	
North West	
Northern Cape	
Western Cape	
Eastern Cape	
Free State	
Kwazulu Natal	

5. The total turnover in the last financial year:

Less than R150 000	
R150 000 – R4 million	
R4 million – R10 million	
R10 million – R40 million	
More than R40 million	

6. Your position in the company

READINESS ASSESSMENT

7. We are convinced that exports are an important aspect of our future survival and are able to commit a substantial amount of time to developing an international market.

YES | NO

8. We have an understanding of export procedures and the various role players involved in processing export orders.

YES | NO

9. We have a product/products that have been successfully sold in the domestic market and our production is consistent in volume and quality.

YES | NO

10. We have a quality management/assurance/control system in place.

YES | NO

11. We have a recent financial report (profit and loss statement and balance sheet).

YES | NO

12. We collect/gather information on potential buyers and competitors (their products and prices) on a regular basis.

YES | NO

13. We are prepared to rearrange the way our business operates to become internationally competitive.

YES | NO

14. We have an efficient communication system and sufficient resources to handle administration matters efficiently and respond to enquiries, complaints, etc.

YES | NO

15. We have spare capacity, or are able to increase our capacity rapidly, to produce over and above our domestic market needs.

YES | NO

16. We have access to technical expertise and have undertaken research and development in order to improve our product's features to suite international market requirements.

YES | NO

17. We can afford to invest in adapting our product/packaging if required.

YES	NO

18. We have information on the size of the world market for our product(s).

YES	NO

19. We have sufficient experience and adequate resources to support and develop an export marketing plan.

YES	NO

20. Our product(s) comply with a recognised South African (SABS) and/or other international standard and/or specification. (Mark N/A if not applicable.)

YES	NO	N/A

21. Our turnover grew over the last 2 years.

YES	NO

We thank you for your time and effort to complete this questionnaire.

ANNEXURE C

QUESTIONNAIRES FROM OTHER COUNTRIES AND INSTITUTIONS

C.1 US Department of Agriculture: Foreign Agriculture Service

This questionnaire highlights characteristics common to successful exporters. Many of these questions will guide you into areas of our homepage where you can obtain more information on food exporting. You will receive a score once you complete the questionnaire, which will help you to assess your export readiness, as well as an identification of areas your business needs to strengthen to improve its export activities.

1.	**My company has a product which has been successfully sold in the domestic market.**	○ Yes	○ No
2.	**My company has or is preparing an international marketing plan with defined goals and strategies.**	○ Yes	○ No
3.	**My company has sufficient production capacity that can be committed to the export market.**	○ Yes	○ No
4.	**My company has the financial resources to actively support the marketing of our products in the targeted overseas markets.**	○ Yes	○ No
5.	**My company is committed to developing export markets and is also willing and able to dedicate staff, time and resources to the process.**	○ Yes	○ No
6.	**My company is committed to providing the same level of service given to our domestic customers.**	○ Yes	○ No
7.	**My company has adequate knowledge in modifying product packaging and ingredients to meet foreign import regulations, food safety standards and cultural preferences.**	○ Yes	○ No
8.	**My company has adequate knowledge in shipping its product overseas, such as identifying and selecting international freight forwarders, temperature management and freight costing.**	○ Yes	○ No
9.	**My company has adequate knowledge of export payment mechanisms, such as developing and negotiating letters of credits**	○ Yes	○ No

C.2 The Regional Municipality of Halton Canada

Assessing your Export Readiness

(Print form and complete - Write Y-N or the letter of your choice)

While there are exceptions to every rule, export veterans and trade specialists know that certain factors make the ramp-up to international markets easier, faster and less risky. To test your "export-ability," answer the following questions and then check your score.

1. Is your product or service already available?	Y	N	**About your product and service**	Y	N
A. Currently in production or being developed B. At the prototype stage C. At the idea stage only			8. Does your product or service have a distinct competitive advantage (quality, uniqueness, price, innovation) over your competition?		
2. Is your product or service selling in the Canadian market?			9. Have you adapted your packaging, labelling and/or promotional materials for your target market?		
A. Selling, and market share is growing B. Selling, but market share is low C. Selling in only one city in Canada			10. Do you have the capacity and resources to provide after-sales support and service in your target market?		
3. Do you have the surplus production capacity or available specialists to meet increased demand for your product or service?			11. Do you have a Free on Board (FOB) or Cost, Insurance and Freight (CIF) price list for your product or a rate list for your service?		
4. Do you have the financing required to adapt your product or service to suit your target market and to promote it?			12. Have you undertaken any foreign market research?		
A. Financing is in place B. Financing is being arranged C. No financing available			A. Completed primary and secondary market research, including a visit to the target market B. Completed some primary and secondary market research C. No research		
About your firm			13. Is your promotional material available in the language of your target markets? (Business cards, brochures, web sites)		
5. Is management committed to sustaining your export effort?			14. Have you started marketing your product or service in your target market?		
6. Does your firm have a good track record of meeting deadlines?			15. Have you engaged the services of a sales representative/distributor/agent, or partnered with a local firm?		
7. Does management have experience in export markets?			16. Have you hired a freight forwarder or customs broker?		

How did you score?

If you selected "A", or answered "Yes" to **12 - 16** questions, congratulations! You understand the commitment, strategies and resources needed to be a successful exporter. At the very least, you have the foundation in place to take on the world and succeed.

Less than 7: While you may be ready to visit faraway lands, you will need to do a little more homework before you export.

7 - 11: Not bad, but there seem to be areas of weakness in your export strategy. It may be wise to seek advice and guidance from government experts, export consultants or the international trade branch of your financial institution.

C.3 Department of Foreign Affairs and International Trade: Canada (Business Women in Trade)

Assess Your Export Readiness!

Think you're prepared to export? Take 90 seconds and complete this self-scoring quiz to get a better idea of just how ready you and your company really are to win in foreign markets.

Please provide answers to ALL of the questions below. For questions 1 to 5 and 9 to 11, only one response is needed. For questions 6 and 7, you will need to answer each part of the question.

Once you've completed the questionnaire, click the "submit your answers" button at the bottom. Almost immediately, you will receive a brief evaluation of your export readiness and suggestions on where to get more help if you need it.

1. Is your product or service already available for export?

- ○ Currently in production or being developed
- ○ At prototype stage
- ○ An idea only

2. Is your product or service selling on the Canadian market?

- ○ Selling and market share is growing
- ○ Selling but market share is low
- ○ Selling in only one city in Canada

3. In how many Canadian provinces are you selling your product?

- ○ Selling in four provinces or more
- ○ Selling in two or three provinces
- ○ Selling in only one province

4. Have you ever exported your product or service?

- ○ Consistent export sales achieved
- ○ Ad hoc export sales achieved
- ○ No export sales

5. Do you have surplus production capacity available?

- ○ Capacity available
- ○ No surplus capacity

6. Do you have financing available to support export marketing and product or service adaptation to a foreign market?

- ○ Financing available
- ○ Unsure

7. About your firm:

- Management is committed to sustained export effort ○ Yes ○ No
- Firm has a track record in meeting deadlines ○ Yes ○ No
- Management has experience in export markets ○ Yes ○ No

8. About your product or service (if unsure = no):

- Product or service measures up against the competition ○ Yes ○ No
- Packaging and labeling and/or promotional materials adapted for foreign markets ○ Yes ○ No
- Capacity available to provide after-sales support and service in a foreign market ○ Yes ○ No

9. Do you have a FOB (free on board) or CIF (cost, insurance & freight) price list for your product or a rate list for your service?

- ○ Price or rate list available in appropriate foreign currency
- ○ Not yet prepared

10. Have you undertaken any foreign market research for your product or service?

- ○ Detailed research completed, including a visit to the market
- ○ Desk and /or internet research has been undertaken
- ○ No research has been done as yet

11. Have you started marketing your product or service in a foreign market?

- ○ Have you hired a sales representative?
- ○ Have you found or lined up a distribution agent/foreign partner?
- ○ Have you hired a freight forwarder/customs broker?

C.4 Centre for the Promotion of Imports from Developing Countries: Netherlands

CBI's export readiness checker consists of 15 questions. You will get the immediate results on-line after completing the test. Please bear in mind that it is a test and not an official audit. The test results can guide you in fine-tuning certain aspects for your European market preparation. Explanations, recommendations and hyperlinks are provided for further preparation. No rights can be derived from completing the test successfully. However, it may be a stepping stone to completing the official CBI audit.

1 Motivation

My organisation wants to export to West European markets because

- ○ It enables us to obtain foreign currency for equipment investment
- ○ The competition in the local and regional markets becomes very tough
- ○ The West European markets have such demand and spending power that profit levels are much higher
- ○ Our domestic and regional market positions are solid and internationalisation will improve our overall competitiveness

2 Analysis

We think we will be successful in the West European markets because

- ○ We have made an assessment of our internal organisation and the West European market environment
- ○ The labour costs in our country are very low
- ○ We have received a number of demands from western companies to send in samples
- ○ We are flexible enough to produce large quantities at buyers specifications

3 Market information

We think we can anticipate the buying behaviour in West European markets because

- ○ We understand it through the use of TV and international magazines
- ○ We consider it in line with our routine experience in the domestic market
- ○ We plan to keep updated on the trends by making regular visits to the markets
- ○ We conduct systematic research through Internet and relevant European trade publications

4 Market information

We believe that when West European industries want to outsource production capacity, the main criterion for choosing a supplier is

- To have a traceable quality management system in place
- To démonstrate reliability through a track record with long standing customer relationships
- To have compatible production and administrative processes and a low total cost of ownership
- To have a competitive price-performance ratio

5 Competitor assessment

Our perceived position regarding our competitors is

- We know the countries with which we have to compete, but realize we do not know everything
- We know our main domestic and international competitors
- We know our main domestic and international competitors, as well as their strengths and weaknesses
- We are not worried about the competition

6 Objectives

Our objectives for internationalisation are

- To develop a strong position in a niche market
- To develop a few long term partnerships
- To make higher profit than in the local market
- To reduce our dependence on the volatile economy of the home market

7 Plan

Our export planning is

- Carried out on an ad hoc basis
- Based on a competitive analysis
- Based on a competitive analysis and translated into an operational Marketing Activities Plan (MAP)
- Based on a competitive analysis, translated into a MAP, implemented and monitored, including budget control

8 Product development

Our product development is

- Initiated by the engineering department
- Limited since we have a traditional well recognized product (line)
- Based on buyer specifications
- Based on purchasing trends and customer satisfaction assessment

9 Organisation

The export activities are

- Managed directly by the general manager who can spend between 10 and 20 percent of his time to that task
- Managed by the marketing manager who allocates 25-50% of his time to international marketing
- Managed by a dedicated export manager
- Picked up by whoever has time available at that moment

10 Human resources

Our employees

- Get a salary that is in accordance with at least the legally set minimum wage standard and overtime paid according to labour law
- Are skilful and low cost which makes us competitive internationally
- Do not stay long with the company
- Receive a premium salary and training programmes to develop professional and social skills

11 Human resources

Our export marketing team is formed on the basis of

- Affinity with other cultures
- Marketing diploma's and the willingness to travel
- Communication skills and cosmopolitan attitude
- International marketing experience and the capability to represent our company in foreign business cultures

12 Financial resources

To finance our export venture

- We will keep our investments in line with the expected yields of the first transactions
- We have planned and reserved an amount to cover expenses for the first two years
- We have some cash in the bank
- We will contact the banks where we can avail of a loan

13 Quality management

Our quality system is based on

- Checking of the products before shipping
- ISO 9000 certification and continuous performance improvement
- Systematic monitoring of different aspects of the production process
- A quality plan, which includes staff training, standardized procedures and quality assessment of suppliers

14 Market entry regulations

Our response to the increasing international market entry regulations is

- Our products comply with the relevant standards and legislation in the European Union
- The protectionist measures of the Western governments are discriminatory and have to be turned back in the WTO
- We are aware of the regulations and acknowledge that we need professional or importers advice to meet the requirements
- We have documented proof that we are in the process of meeting the minimum standards and/or obtaining appropriate certification

15 Market entry activities

Our experience with market entry activities in the European market is

- We have participated in a trade mission to West Europe
- We have participated in a relevant trade fair in Western Europe
- We have not yet participated in any relevant West European trade fair or trade mission
- We have visited a relevant West European trade fair before

C.5 Pennsylvania Foundation: Business Resource Network

Export Readiness Assessment Form

This self-assessment tool is designed to help assess your company's commitment to develop a proactive, long-term export business. It is based on characteristics and qualities common to companies who are successfully exporting. Take time to evaluate each question carefully and establish goals for solving any areas that may limit your success.

Once you have completed the checklist, please click on the *Score Button*. An assessment of your export readiness will then appear.

Product Characteristics and Competitiveness

Companies that have a successful domestic market are more likely to succeed in the export business. However, a company must not base an export decision on past domestic performance.

Using the following characteristics, are your company's products internationally competitive?

Better quality/technical superiority?	○ Yes	○ No	○ Unsure
Unique features/characteristics?	○ Yes	○ No	○ Unsure
Timely delivery?	○ Yes	○ No	○ Unsure
Price?	○ Yes	○ No	○ Unsure

Unsolicited sales can build up to a point where a company becomes an exporter with minimum cost and effort. Has your company received inquiries from foreign countries?

○ Yes ○ No

Did your company sales have a positive growth rate over the past three years?

○ Yes ○ No

Commitment to Developing International Markets

A lack of commitment, coordination, undefined management roles and responsibilities, and inexperienced staff are all weaknesses to be identified. Any company members with exporting experience and management should be involved in developing an export marketing plan.

Does exporting fit into your company's overall marketing objectives?

○ Yes ○ No

Is top management strongly supporting pursuing exporting?

○ Yes ○ No

Will your company develop an international marketing plan with defined goals and objectives?

○ Yes ○ No

Will your company budget at least $5,000 for initial export development?
This budget should include items such as international travel, market research, and business training.

○ Yes ○ No

Has your company conducted market research using secondary sources of information (government statistics, industry data or privately-produced reports)?

○ Yes ○ No

International Trade Operations

Will your company ensure that export sales orders will be processed with the same expediency of domestic sales orders?

○ Yes ○ No

Will your company give its foreign representatives and customers the same attention and level of service given to domestic representatives and customers?

○ Yes ○ No

Will your company appoint someone internally to develop export sales?
(Ideally, this person would be familiar with the language, and practices of your target markets.)

○ Yes ○ No

Does your company have sufficient production capacity that can be committed to the export market over the long-term?

○ Yes ○ No

Is your company willing to modify product packaging and ingredients to meet foreign import regulations, food safety standards, and cultural preferences?

○ Yes ○ No

Does your company have a staff who can handle export documentation?

○ Yes ○ No

Financial Commitment

Exporting is an advisable strategy to pursue only at the appropriate point in each company's unique development process. A non-export ready company is much better off devoting its resources to further strengthening domestic business than prematurely attempting to export.

Is your company well established in the domestic market and financially stable?

○ Yes ○ No

Will management accept a payback of three years or more on exporting?

○ Yes ○ No

Will your company's management set yearly export sales goals with long-term objectives of making export sales a substantial percentage of total corporate sales?

○ Yes ○ No

Is your company aware of how currency exchange rate fluctuations can affect company sales and profits?

○ Yes ○ No

Does your company have the financial resources to actively support the promotion of your products in the targeted markets over the long-term?

○ Yes ○ No

Scoring

Improvements in communications and technology have made exporting a reality for many companies, both large and small. Today, exporting is not just for large companies or multinational corporations. Exporting can be profitable but it takes time, money and commitment to succeed. Making the export decision requires careful assessment of the advantages and disadvantages of expanding into new markets. Your score is designed to identify successful export characteristics and help you determine if exporting is right for your company.

Each "yes" answer is worth one point.

BIBLIOGRAPHY

ABOUT MATRADE. 2001. Corporate Information. [Web:] http://www.matrade.gov.my/about-matrade/corporate.htm [Date of Use: 17 Nov 2003].

About MATRADE. 2001. Our Services. [Web:] http://www.matrade.gov.my/about-matrade/services.htm [Date of Use: 17 Nov 2003].

ANON. 2000. Why Innovate? *International Trade Forum*, 2:18-19.

BELGIUM FOREIGN TRADE BOARD. 2002. 2002 Figures. [Web:] http://www.obcebdbh.be/menu/menuie.html?ver=en [Date of Use: 17 Nov 2003].

BELLI, P, FINGER, M. & AMPARO, B. 1993. South Africa: A Review of Trade Policies. Discussion Paper 4. Washington: World Bank.

BENNETT, R. 1999. International Business. 2nd ed. London : Financial Times Management.

BLACK, A & KAHN, B. 2002. Growing without Gold? South Africa's Non-Traditional Exports since 1980. (*In* Helleiner, G.K., ed. Non-Traditional Export Promotion in Africa. New York : Palgrave. p. 217-252.)

BRANCH, A.E. 1990. Elements of Export Marketing and Management. 2nd ed. London : Chapman & Hall.

BRANCH, A.E. 1994. Export Practice and Management. 3rd ed. London : Chapman & Hall.

BRITISH STANDARDS INSTITUTION. 1999. Import & Export Advice: Satisfying Technical Requirements of World Markets. [Web:] http://www.bsi-global.com/Import+Export+Advice/Useful+Publications/Technical/Introduction+Exporters.xalter [Date of use: 9 Aug 2003].

CACCHIONE, M. 1996. The development of an Export Readiness Model: An indexing tool used to measure, quantify and compare a company's pre-export position. In partial fulfilment of the requirements for the Masters of Business Administration Degree, University of Cape Town.

CALOF, J. & VIVIERS, W. 1995. Internationalisation Behaviour of Small and Medium Sized South African Enterprises. *Journal of Small Business Management*, 33(4):71-79, Oct.

CALOF, J. & VIVIERS, W. 1995. The Promotion of Exports in South Africa. *Africa Insight*, 25(4):248-253.

CALOF, J. & VIVIERS, W. 2001. How to Win Customers and Influence Profits. *Africa Insight*, 31(2), June.

CBI (Centre for the Promotion of Imports from Developing Countries). 2003? Export Readiness Checker. [Web:] http://www.cbi.nl/show.php?file=expand/expand.html [Date of use: 4 Jun 2003].

CHAIRMAN'S STATEMENT. 2001. Annual Report 2001. [Web:] http://www.matrade.gov.my/about-matrade/annual-report/reports-012000.htm [Date of Use: 17 Nov 2003].

CITD (Centers for International Trade Development). 2001. Export Readiness Assessment. [Web:] http://www.citd.org/startup/eras/index.html [Date of use: 3 Jun 2003].

CZINKOTA, M.R. 2002. National Export Promotion: A Statement of Issues, Changes, and Opportunities. (*In* Kotabe, M. & Aulakh, P.S., ed. Emerging Issues in International Business Research. Cheltenham, UK : Edward Elgar. p. 123-139.)

CZINKOTA, M.R. & RICKS, D.A. 2001. Export Assistance: Are We Supporting The Best Programs? *Columbia Journal of World Business*, Summer 1981: 73-78.

CZINKOTA, M.R. & RONKAINEN, I.A. 2002. International Marketing. Florida: Harcourt, Inc.

DEAN, D., GAN, C. & MYERS, C. 1998. An Investigation of the Relationship between a Firm's Perceived Export Barriers and Stages of Export Development: An Analysis of Canterbury Manufacturing Firms. *Journal of Enterprising Culture*, 6(2):199-216, June.

DFAIT (The Department of Foreign Affairs and International Trade Canada). 2002. Business Women in Trade: Assess your Export Readiness. [Web:] http://www.dfait_maeci.gc.ca/businesswomen/readinessquiz-en.asp [Date of use: 27 May 2003].

DTI (The Department of Trade and Industry South Africa). 2002. Learn to Export: Export Readiness Assessment. [Web:] http://www.dti.gov.za/exporting/learntoexport.htm [Date of use: 28 May 2003].

DTI. 1997. A Guide To Exporting For Small, Medium And Micro Enterprises. An Initiative of the Department of Trade and Industry: Committed to service Excellence.

DTI. 2001. History of Philippines. [Web:] http://www.dti.gov.ph/contentment/66/72/251.jsp [Date of Use: 13 Nov 2003].

DU PLESSIS, S.P.J. 1998. International Economics. 2nd ed. Johannesburg: Heinemann.

EMIA. 2003. Export Marketing & Investment Assistance: 2003 Guidelines. 4th ed. Provided by the DTI.

EXPORT VLAANDEREN. 2003. De Exportmeter: Meten is Weten. Published by Export Vlaanderen.

FOOD EXPORT USA NORTHEAST. 2002. Export 101: Export Readiness. [Web:] http://www.foodexportusa.org/why_export/ready.html {Date of use: 3 Jun 2003].

GRONDIN, D. & Grondin, C. 1994. The Export Orientation of Canadian Female Entrepreneurs in New Brunswick. *Woman in Management Review*, 9(5):20-30.

GUMEDE, V. 2000. Growth and Exporting of Small and Medium Enterprises in South Africa: Some Thoughts on Policy and Scope for Further Research. (*In* Trade and Industrial Policy Secretriat. Paper presented at the TIPS 2000 Annual Forum at Glenburn Lodge, Muldersdrift, 18-20 Sept.)

HELLEINER, G.K. 2002. Introduction. (*In* Helleiner, G.K., ed. Non-Traditional Export Promotion in Africa. New York : Palgrave. p. 1-20.) http://ota.spiralfx.com/organic/mt/export_chapter6.html [Date of use: 9 Aug 2003].

HUSTED, S. & MELVIN, M. 1990. International Economics. New York : Harper & Row.

IE SINGAPORE. 2001. IE Singapore: Moving Beyond Trade. [Web:] http://www.iesingapore.gov.sg/index_ie.jsp?vert=IE&secfield=2 [Date of Use: 13 Nov 2003].

INDONESIA-SOUTH AFRICA. 2002. Trade Regulations and Standards. [Web:] http://www.indonesiasouthafrica.co.za/traderegul.html [Date of use: 11 Aug 2003].

IREKLAMO. 2001. Export Assistance Network. [Web:] http://www.dti.gov.ph/contentment/66/72/251.jsp [Date of Use: 17 Nov 2003].

ITRISA (International Trade Institute of South Africa). 2002. Export Training & Education Needs Analysis & Recommendations Report. Compiled for Trade and Investment South Africa.

ITRISA (International Trade Institute of South Africa). 2003. International Cargo Movement. Study material compiled for Certificate in International Trade. Sponsored by Standard Bank.

JAFFE, E.D. & PASTERNAK, H. 1994. An Attitudinal Model to Determine the Export Intention of Non-exporting, Small Manufacturers. *International Marketing Review*, 11(3):17-32.

JETRO. 2002. An Introduction of JETRO. [Web:] http://www.jetro.go.jp/top/cat1/abjtr.html [Date of Use: 13 Nov 2003].

JÖRESKOG, K. & SÖRBOM, D. 1993. LISREL 8: Structural Equation Modelling with the SIMPLIS Command Language. Lincolnwood: SSI.

JÖRESKOG, K., SÖRBOM, D., DU TOIT, S. & DU TOIT, M. 2000. LISREL 8: New Statistical Features. Lincolnwood: SSI.

KARAMALLY, Z. 1998. Export Savvy: From Basics to Strategy. New York : International Business Press.

KEDIA, B.L. & CHOKAR, J. 1986. Factors Inhibiting Export Performance of Firms: An Empirical Investigation. *Management International Review*, 26(4):33-43.

KINGHAM, P. 2003. Is Government Committed To Supporting Exporters? *Global Trade*, 9:34-36.

LEONIDOU, L.C. 1995. Export Barriers: Non-exporters' Perceptions. *International Marketing Review*, 12(1):4-25.

LOOTS, E. 2002. Globlisation, Emerging Markets and the South African Economy. *The South African Journal of Economics*, 70(2):263-28, March.

MALAYSIA EXPORTS. 2002. Secrets of International Trading: Export trade Barriers and Trading Blocs. [Web:] http://www.malaysiaexports.com/inex17.1.barriers.htm [Date of use: 9 Aug 2003].

MIESENBOCK, K.J. Small Business and Exporting: A Literature Review. *International Small Business Journal*, 6(2):42-61.

MOINI, A.H. 1998. Small Firms Exporting: How Effective Are Government Export Assistance Programs? *Journal of Small Business Management*, 36(1):1-15, Jan.

MORRISON, T.K. 1976. Manufacturing Exports from Developing Countries. New York : Praeger.

ORGANIC TRADE ASSOCIATION. 2003. Export Study - Chapter 6: Trade Barriers. [Web:] http://ota.spiralfx.com/organic/mt/export_chapter6.html.

PASOURCENET. 1997. Export Readiness Assessment Form. [Web:] http://www.pasourcenet.com/scripts/export_readiness.asp [Date of use: 28 May 2003].

RANKIN, N. 2001. The Export Behaviour of South African Manufacturing Firms. (*In* Trade and Industrial Policy Strategies. Working Paper 5 - 2002. Paper presented at the TIPS 2001 Annual Forum.)

REESE, K. 1993. Export Marketing: Procedures, Structures and Economic Contribution. Pretoria : Southern Book Press.

SACKS, A. 2001. Exporting: Selling Your Product to Foreign Markets. Cape Town : Zebra.

SAFTO/BMI RESEARCH PROJECT. 1993. Export Effectiveness in South Africa: Private Business Sector Views. SAFTO/BMI.

SALVATORE, D. 2001. International Economics. 7th ed. New York: Wiley & Sons.

STEENKAMP, J.E.M. & VAN TRIJP, H.C.M. 1991. The Use of LISREL in Validating Marketing Constructs. *International Journal of Research in Marketing*, 8: 283-299.

STOESZ, D., GUZZETTA, C. & LUSK, M. 1999. International Development. Boston : Allyn and Bacon.

THE BURBANK GROUP. 2003? Export Readiness Planning: A Time to Market Issue. [Web:] http://www.burbankgroup.com/ExReady/TTMplan.html [Date of use: 3 Jun 2003].

TIMM, S. 2003. Brand new export help. *Big News*, 74:7, Apr.

TRADE & INVESTMENT SOUTH AFRICA. 2002. EMIA Information Booklet: 14 May 2002. Prepared for The Department of Trade and Industry South Africa.

TRADE POINT PRETORIA. 2003? Organisational Readiness to Export. [Web:] http://www.tradepoint.org.za/pretoria/services/export_guide/organisational_readiness.html [Date of use: 3 Jun 2003].

TRADEPORT. 2003. Getting Started in International Trade: Assessing Export Readiness. [Web:] http://www.tradeport.org/ts/trade_expert/assess/index.html [Date of use: 3 Jun 2003].

VAN DER MERWE, S.J., STYGER, P. & GROBLER, W.J.C. 1997. Mikro-ekonomie. Potchefstroom: PU vir CHO.

VIVIERS, W. & CALOF, J. 1999. A Framework for Creating a Export Society in South Africa. *International Journal of Social Economics*, 26(7/8/9):915-924.

VIVIERS, W., KROON, J. & CALOF, J.L. 1996. Export Behaviour of South African Enterprises: Stages and Attitudes towards Export. *SA Tydskrif Beleidsleiding*, 27(1/2):34-41.

WEAVER, K.M., BERKOWITZ, D. & DAVIES, L. 1998. Increasing The Efficiency of National Export Promotion Programs. *Journal of Small Business Management*, 36(4):1-11, Oct.

WILLIAMSON, JG. 1996. Globalisation and Inequality: Past and Present. *National Bureau of Economic Research*, Working Paper, W5491, March, Cambridge, M.A.

YEATS, A. 1997. 1997 Abstract of Current Studies: International Economics. [Web:] http://www.worldbank.org/html/dec/Publications/Abstracts97/06econ/econ18.html [Date of use: 9 Aug 2003].

ADDRESS OF THE AUTHOR:

Sonja van Eldik
PO Box 914243
WINGATE PARK, 0153
SOUTH AFRICA

Cell No: +2783 292 3566
Email: vaneldiks@lantic.net