The promotion of exports in South Africa

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NO matter where you look, governments today are focusing great effort on the enhancement of international trade, on persuading more companies to export ever more goods and services. But how, exactly, do we create a strong and growing cadre of successful exporters? This article proposes a framework which may help all exporters reach their maximum potential and so lay the groundwork for economic growth and prosperity.

The importance of exports for South Africa

In South Africa, the importance of increasing exports is such that it is highlighted in both the Reconstruction and Development Programme and in the White Paper on Small Business Development.[1] The matter is particularly vital owing to the role played in South Africa's economic development by small and medium enterprises (SMEs). Approximately 90% of South African enterprises fall into the small- or medium-sized class, but only 3% of them are currently exporting.[2] It is therefore logical for the government to pursue policies on a national scale aimed at increasing exports and the foreign exchange earnings they represent. South Africa is currently experiencing a balance of payments deficit and must therefore concentrate on the promotion of exports in order to earn much-needed foreign currency to pay for imports of essential goods and services and for advanced technology which cannot yet be sourced locally.

Before the role of the South African government in export assistance is assessed, we will discuss a theoretical framework setting out the "stages" through which the evolutionary process of exports takes place. South African export development and its "stages" and current export assistance programmes will then be evaluated against a proposed model setting out the role any government should play in its country's export development.

Theoretical framework: The "stages" model of exports

In most developed countries SMEs by far dominate the export landscape. In Canada, Italy, Norway, Korea, and many other countries, well over 90% of exporters are SMEs. In many countries (for example Italy and Korea) SMEs account for over 50% of all export sales.[3] SMEs not only export successfully; recent research indicates that they generally outperform larger firms in many dimensions of export performance.[4] SMEs have certain size-based advantages when it comes to competing on international markets – adaptability, flexibility, low cost structures, the ability to make successful use of both economies of scale and niche strategies.

Why does the export-behaviour of South African businesspeople differ from that of exporters in many other countries? To understand why and how firms develop internationally, Johanson and Vahlne's[5] study will be briefly discussed. Since Johanson and Vahlne developed their "stages" model of exports, a number of other studies[6] have been conducted to explain the behaviour of exporting firms. This research has confirmed that all firms, SMEs especially, go through certain distinct "stages" of internationalization on their way to becoming aggressive, successful multinational firms. Several stages classification schemes have been identified.[7]

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 (ie 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 an "active" exporter).

Stage 6 Management is committing 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.

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Commitment increases as owners/managers learn more and therefore become less uncertain about foreign markets.[8] In particular, owners/managers generally show a change in commitment as they gain experiential knowledge in some particular foreign market and as their perceptions of the costs and benefits of involvement in that market change accordingly.

Taken at macro level, the stages theory of internationalization implies that, within any country, there will be a mixture of non-exporters, partially interested firms, experimental exporters and active and committed exporters. But how does such an export development process start? What leads some firms to become passive or experimental exporters? And how can the South African government assist them?

Step 1: Initiating export development: Get firms to start exporting!

Why do firms initially start exporting? Results from several studies point to three primary reasons:[9]

- industry dynamics (for example, the domestic market is too small for even one firm; there are needs for economies of scale, and so forth)
- management preference (for personal reasons)
- unsolicited export orders (sales initiated by a foreign customer, the domestic firm being at the time uninterested

How can these findings be used to help motivate and develop new exporters? First, let us consider what programmes non-exporter firms would be interested in. Programmes based on such support as export marketing assistance or export advice may not be made use of simply because these firms are not *interested* in exporting – yet! How then do we create new exporters? Helping promising firms is of vital importance: once involved, some will eventually become committed, aggressive and successful. With these firms, the government must take the role of *initiator*. The key here lies in developing mechanisms designed to open up the non-exporters' minds to the possibility of exports and do so in a way which will appeal to them. The mechanisms developed must not only arouse their interest but must work towards lowering their perception of the costs and risks in any exporting exercise.

Unsolicited export orders are the most frequent creators of export involvement. If it is in the best interest of South Africa to have more firms actively exporting, then it is imperative that someone help these firms get the ball rolling. And here the public sector can help by finding customers. In a word, handing export orders on a plate to non-exporters may be a viable way to get firms started on the road to export success.

Not all firms will respond positively to unsolicited export orders. Taking the first steps requires a positive attitude and some degree of management commitment. Management may give several reasons for turning down such enquiries. You frequently hear non-exporter managers/owners complaining about the paperwork, the risk of not being paid and the general complexity; and claiming that "the domestic market is good enough for *them*". There is also a phrase "exporting is not for me – my firm is too small", often heard at this stage.

How do we help these firms? By developing programmes which will change attitudes.

Cognitive psychology has found that changing attitudes is extremely difficult. Attitudes change only in the face of overwhelming evidence, presented by or from reliable sources.[10] Here, industry round-table occasions where non-exporters and exporters can meet could be powerful catalysts for changing attitudes. Hearing from competitors, suppliers, customers and other people whom the non-exporter respects, could start the process of change. Mentoring programmes can also be used. One caveat, please note, is that attitudes will not change if the information is delivered by some person or some organization not trusted by the firm. It is for this reason that export mentoring programmes in which more experienced firms from the industry help less experienced firms get into export markets, may be effective. Both the United States and Italy have had some success with this approach. Once again, the key to this recommendation is that the non-exporting SMEs must be brought face to face with credible role models they can relate to and will trust.

The initiator role is more important than most observers think. There are many firms who try to export and then give up owing to the sort of problems associated with this early stage. In our study of South African exporters, 15% who had once tried to export, had given up. Successfully executing the first few export sales is extremely difficult.[11] Paperwork complexity, coupled with the difficulties inherent in trading in a foreign environment, make business difficult for experienced exporters, let alone for first-timers. Consider the mistake that General Motors, an experienced multinational, made when they exported their best-selling Nova automobile to Puerto Rico. Sales levels were well below expectations. The problem? In Spanish, No-va means "doesn't go"[12] – not a good name for an automobile. And indicative of the multitude of problems that can arise when a firm first enters a new market and of the many good reasons why initial hand-holding may be so important.

Step 2: Development: Get firms to become aggressive!

Having initiated firms into exporting, the next task is to get them actively looking for their own export opportunities and so develop them from stage 2 exporters up to stages 3, 4, 5 and 6. How do these firms become more aggressive exporters? Well, we must remember that, while perceptions of risks, costs, and benefits undoubtedly decide at what export-stage a firm chooses to be, such perceptions are not static. As they gain international experience, firms involved in exporting go through a continual learning process. And this experience can and may reduce executives' uncertainty regarding costs and risks and persuade them to favourably revise their perceptions of exporting's benefits.[13]

Many government export promotion programmes are geared to development. Training programmes, underwriting trade fairs, market investigation study support and the like can be effective, since each helps to reduce the costs of exporting while at the same time providing management with the information needed to reduce *perceived* export costs and increase *perceived* benefits. As mentioned in our recommendations for the initiator role, mentoring programmes can also be effective and so can be export experience itself. Programmes that offer concessional financing and export insurance may also be effective, as they eliminate much of the real risk for exporters. Again, as for the initiator stage, programmes need to be developed which help reduce the perceived costs and risks of exporting and increase the perceived benefits.

Attitude is not, however, the only factor differentiating firms at "more advanced" and "less advanced" levels of export involvement. More advanced/committed exporters trend to have an export department with explicit international strategies and resources, in short, a more export-oriented *structure*. More advanced firms also tend to have executives with international experience who are committed to exports and spend a significant percentage of their time on export-related matters. This should surprise no one. Without senior executive support, export success is unlikely. Moreover, all the attributes discussed here are generally prerequisites for higher levels of export involvement, and firms tend to develop these attributes as their international operations evolve. However, if ways could be found to persuade firms to develop these export-related systems, procedures, skills, and so forth, the time it takes a firm to grow from experimental exporter to committed exporter could perhaps be shortened. Training programmes, information campaigns, mentoring programmes and industry round tables can all be valuable mediums for bringing export assistance and information to early-stage exporters.

In short, to help stage-two exporters develop into committed exporters, we need to introduce programmes that induce changes in attitudes and encourage firms to develop the organizational attributes associated with export success. Note that while (as we have seen) there were a whole range of problems inherent in developing programmes for *non*-exporters, the firms we are addressing now will already be interested in exporting and will react more positively to well-designed export initiatives.

Step 3: Elimination: Create and sustain export success!

The proper design and implementation of the initiator and developer roles will help create a strong and growing cadre of committed/aggressive exporters. At this point, export attitudes do not stand in the way of success and an international structure proper to exporting firms should now be in place. Success should now depend upon the capabilities of the companies concerned. However, as committed firms approach international markets, one additional barrier may affect success – the lack of a level playing field. There are three sources of these externally induced barriers to success: foreign-country policies; domestic-country policies and country-based disadvantages.

Many foreign governments have measures in place designed to enhance and protect the performance of their own firms. Tariff and non-tariff barriers will have been erected to limit imports; subsidies will serve to reduce production costs; export support measures will help to make domestic exports more cost competitive than those from elsewhere. In some instances, barriers may be so high that in certain markets it may be impossible for South African companies to compete at all.

Any foreign government programme which supports domestic industry and makes it difficult for products to be exported to their country places South African exporting firms at a price disadvantage and can hamper export success.

Certain domestic South African policies can also hinder export success. Policies which increase the complexity of doing business, or increase manufacturing costs, can make the South African export product more expensive. High domestic tax rates and artificially high exchange rates can also put exporters at a disadvantage. In addition, investment restrictions abroad can hinder South African export development since they slow down the normal evolutionary process of internationalization. In short, any legislation that limits a company's ability to grow internationally or increases production/service costs and complexity can hinder export success.

Does this mean that governments in general should abandon such cost-increasing policies as taxes, tariffs, and exchange rate controls? Absolutely not! But governments should be acutely aware of the effects such interventions can have on the ability of domestic firms to realize and sustain export success.

Finally, there are several domestic South African disadvantages that can stand in the way of export success. For example, there is (in relation to other countries) our low labour productivity which makes the export product higher in cost and lower in quality. A certain lack of domestic infrastructure can also make it difficult to produce for foreign markets.

What role, then, is the government to play in all this? It is the role of chief *eliminator*. It must consciously adopt a policy of eliminating anything that stands in the way of export success. At the domestic level this means evaluating current government programmes to ensure that they do not hinder export success. Reducing tariffs and red tape that add cost and complexity to exporting. Negotiating trading agreements with foreign countries to ensure that the playing field is level, and, if the foreign governments concerned are unwilling or unable to alter their domestic policies, considering GATT-friendly measures in South Africa that will put domestic firms on an equal footing with their foreign counterparts. By government's elimination of export barriers on such lines as we have suggested, firms with the right attitudes and the right products will be able to become successful aggressive exporters. Without such elimination, it is the country's ability to realize its maximum export potential that will be eliminated.

The principle behind elimination is blindingly simple: the more obstacles you can remove from the path of exporters, the better they will be able to perform.

South Africa's success with initiation, development and elimination

Creating a strong and growing cadre of exporters requires that South Africa focus on initiating new exporters, developing existing exporters and eliminating barriers to export success. The implication of what has been presented so far in this article is that the South African government – and, for that matter, governments in general – have to target export-related programmes at the three distinct export-stages we have indicated if these programmes are to be effective. How is South Africa performing in these three roles?

Initiation: Compared to many other countries around the world, the number of South African SME exporters is low. It is estimated that less than 3% of all South African SMEs are exporters. The figures elsewhere: 80% in Italy, 37% in the United States, 14% in Canada and 20% in the United Kingdom. Furthermore, South African SMEs account for under 1% of all export sales. The figures overseas are: 40% of all export sales in Korea, 56% in Taiwan, 53% in Italy and 9% in Canada.[14] Clearly, not enough new firms in South Africa are being initiated into exporting. While there are several structural barriers such as geographic distance and the psychological effects of sanctions,[15] interviews with the managers of export assistance programmes point the possible existence of an anti-exporting bias within South Africa as being the primary initiation-related problem.

Development: Quite as serious as the initiation problem is the development problem. It appears that the normal evolutionary patterns of internationalization in South Africa is being slowed down. In the authors' two studies of the export behaviour of South African SMEs, we looked first at these firms' export-stage. As with previous studies, the export stage was calculated by using the SMEs export intensity (export sales/total sales). Three stages were used for this study: a passive exporter (export intensity of 1% – 24%); an involved exporter (intensity of 25% – 49%) and a committed exporter (intensity greater than 50%). Using these categories, 58% of the 48 exporting companies were passive exporters, 19% were involved exporters and 23% were committed exporters. These figures are significantly lower than those found in an identical study conducted by the authors in Italy, in which no less than 55% Italian respondents were committed exporters.[16] These studies seem to indicate that there are fewer committed exporters among South

African SMEs than in other more developed countries. This, in turn, clearly suggests that a development problem may indeed be occurring, with few firms making the leap from lower-stage to higher-stage exporter.

Elimination: We have identified certain problems in the initiation and development stages; but elimination is an area in which the current government has shown much strength. The existence of GEIS as a means of correcting tariff-based cost disadvantages, the dramatic drop in tariffs after signing the latest GATT, the attempts to negotiate treaties and most-favoured-nation status, and the concerted efforts by government to build and enhance relationships with other countries is clearly indicative of its "elimination" focus. The results of these initiatives have been quite positive. Between 1993 and 1994, exports increased by 12%; exports to Africa have fared even better, increasing by 61% in the first four months of 1995 when compared with the first four months of 1994.[17] South Africa's exports to Africa, expressed as a percentage of the country's total exports, have increased from 13,8% in 1994 to 16,2% in 1995 (January – August).[18]

Nevertheless, based on our discussion, it would appear that the successful implementation of eliminator programmes such as GEIS and treaty negotiations may be resulting in growth among currently committed and aggressive exporters but *not* in initiating new exporters or developing existing "lower stage" ones.

Assessing South Africa's current export assistance

South Africa can boast of a considerable number of export-assistance programmes both at the private and public sector levels. The following section will look at a few of these programmes using the model developed in this article and conceptually analysing the programmes for effectiveness. This is not a programme evaluation but a conceptual review, using interviews conducted with export assistance professionals at Safto, DTI, Saiea, Nafcoc and Fabcos for primary data and the stages model as our analytical framework.

Linking export assistance programmes to export-stages requires that the programme under review be addressed from the perspective of the particular export-stage being considered and the objectives designed for exporters at that stage. For example, an early-stage attitude assistance programme would differ from a mid-stage organizational development programme. The key issues would be:

- what the programme has been designed to do; and for exporters at what stage
- whether it has been effectively designed and tested for that stage
- whether it is relevant to the firms using the programme

An assessment of South Africa's export assistance programmes will be discussed below.

Export marketing assistance (EMA): This programme provides financial assistance for trade shows, will underwrite export market investigation studies, and help fund buyer missions. EMA is currently targeted at newer exporters, and particularly at SMEs since the latter do not have the resources or inclination to support these sorts of initiative. Unfortunately, this programme is not an initiating one, as, in order to participate and benefit, firms must already be interested enough in exporting to know about and ask for the programme. This programme, consequently, can be said to be targeted as a development aid for stage 3 and, possibly, stage 4. It reduces actual costs and produces both information (market studies) and experiential learning (trade shows), both of which help to reduce the perceived risks of exporting. The programme helps, in brief, by introducing stages 3 and 4 firms to opportunities they might otherwise not have been exposed to.

To benefit from this programme, the following are needed:

- Knowledge about the programme. EMA is advertised in a variety of export-related publications. This is, media-wise, restrictive: firms at the earlier stages may just not hear about it as their export information search procedures may be insufficiently sophisticated to uncover this vital information.
- Programme requirements. Participants must fill in a detailed application form listing their export goals. The intention of this form is to help the government assess export potential, and the paperwork requires that firms provide details of their international strategies. This is appropriate when dealing with advanced stage exporters. But for early stage exporters, no plan of this sort is likely to exist as management will lack the knowledge, interest, and ability to prepare one.
- Regional target. The only restriction is that funds cannot be allocated for trade related activities involving Southern African Customs Union countries. Here lies a clear contradiction of early stage targeting principles. According to the stages model of internationalization, a firm's first export market will be the one which is culturally and psychologically closest to the home market. According to executives from Saiea and Fabcos, Southern Africa is psycho-culturally the closest market to the domestic one, the natural market to which their members first start exporting. This is in stark contrast to the white South African businesspeople for whom Europe is traditionally the first export market. This means that black business people have to have reached a very advanced export stage before assistance will be provided. This clearly inhibits their export development.

This analysis leads us to the following preliminary conclusions:

- The programme has not been designed to suit black-owned SMEs. Its geographic restrictions run counter to their desired export patterns, and its paperwork complexity makes it unattractive to first-timers.
- The target group will probably not hear about the programme anyway, since it is not advertised in appropriate media.
- It is unlikely, therefore, that the target group will take advantage of the programme.

Export credit insurance (CGIC – Credit Guarantee Insurance Corporation): CGIC will issue an insurance policy which protects against the risk of non-payment for export sales. The programme does not have a specific target. It is intended for *all* exporters; the only reason an exporter would be turned down would be if the country or the potential customer were too high a risk; or if the firm's past export sales had given rise to problems.

This programme can be seen as both eliminative and developmental. Seen as an exercise in elimination we find that many countries offer similar programmes; CGIC at one level, therefore, provides South African firms with a programme comparable to that of other nations. As a developmental tool, the existence of export credit insurance, by definition, serves to eliminate the risk of export sales. This encourages exporting by removing one of the attitudinal barriers we have already-mentioned in this article.

The programme's overall design seems appropriate for all groups from early to advanced stages and no perceived cultural bias is evident. Unlike the DTI's EMA forms, CGIC's are short (four pages) and relatively easy to fill in. All that is required is the name of the firm, details of the potential sale, and past export history (if any). Stage-two firms would be capable of filling in the information required. Finally, CGIC advertises their guarantee programmes in business magazines and through Chambers of Commerce. These are dissemination media to which early-stage companies would have access. Accordingly, based on an admittedly cursory assessment of the CGIC's programme, a preliminary conclusion would be that it is well designed for developing early stage exporters.

CGIC design factors suggest that all exporters should be able to use the programme, and in fact interviews with CGIC executives have confirmed that it has been used by many early-stage exporters. CGIC itself sees a definite development role in the programme. It has indicated in interviews that profits on early-stage exporter premiums have been designed to be low, as it (CGIC) wants to help develop such firms. CGIC is not into development for altruistic purposes, though. It feels that if it can help to develop a successful exporter (ie take him up through the stages), the investment will pay off in future insurance policies. "We want all their business" is the cry. This is an interesting message for governments looking at developing initiation and development programmes.

There are many other export assistance organizations and schemes which could be analysed in this manner. Safto, Chambers of Commerce, IDC, Saiea, Fabcos, Nafcoc, Import Duty Rebate, and so forth are all geared to promoting exports. But, the extent to which these programmes have been appropriately designed for initiation and/or development and/or elimination, and the extent to which they can be effective, can only be determined by subjecting them to a detailed analysis. Given the initiation and development problems discussed earlier, a comprehensive review may well indicate serious programme shortfalls.

Recommendations

Ensuring that South Africa's economy reaches its fullest potential requires that the government follow up with solid action on the RDP and DTI White Papers' focus on SME exports. It could help by creating comprehensive policies and export programmes that would enable firms to progress from the status of non-exporters to that of aggressive successful exporters and multinational enterprises. Unfortunately, the current range of programmes and policy initiatives tend to be geared to more advanced-stage exporters. This has resulted in a disproportionately low percentage of SME exporters and a limited evolution among lower-stage exporters. By focusing so much attention on the more experienced and successful firms, the government is ignoring long-term potential. Surely it would be better to develop new exporters and also help passive exporters to develop into more active exporters. Accomplishing this would require a concerted effort on the part of the government to develop, manage, execute, and evaluate programmes in a manner consistent with the different export stages. Programmes must be created which recognize that different firms have different needs at different stages of their export development. This article has formulated a framework for creating programmes that would help non-exporters become exporters (*initiator* role), help new exporters become committed exporters (*developer* role), and eliminate the barriers to export success (*eliminator* role). It must constantly be borne in mind that each role has a unique target group; that each role has unique objectives; and that each role has unique outcomes.

The first step in what will be a long but rewarding road must be a concerted effort to assess the extent to which current private and public sector programmes, programme-delivery systems, programme officers, and export and non-export government policy are effectively assisting with the *initiator*, *developer*, and *eliminator* roles. If gaps are identified, appropriate steps must be taken. This article has set out both the theoretical framework and evaluative framework to help identify these gaps. Whether the gaps are filled by private or public sector organizations will be a policy choice. But the gaps must be filled if economic growth through exports is to be assured.

Notes and references

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16 J L Calof and W Viviers, *op cit*, p 18.

17 J L Calof and P Beamish, *op cit*.

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Abbreviations

CGIC:	Credit Guarantee Insurance Corporation
DTI:	Department of Trade and Industry
FABCOS:	Foundation for African Business and Consumer Services
IDC:	Industrial Development Corporation
NAFCOC:	National African Federated Chamber of Commerce and Industry
SAFTO:	South African Foreign Trade Organization
SAIEA:	South African Import Export Association