

Chapter 7

A qualitative analysis of South African enterprises

Government cannot create competitive industries, firms must do so (Porter, 1990: 620).

7.1 Introduction

The previous chapters highlighted the main determinants of trade at both macro and at industry level. The historic background of trade theories, the gravity model and the estimation of the trade equations using the error correction model (ECM), have provided a useful picture of South African trade. Policy implications can be derived at a macro and meso (or industrial sector) level. However there is a gap in the policies and support programmes that are necessary for strengthening productive capacity at the enterprise level, particularly small- and medium-sized enterprises (SMEs). UNCTAD (2003:16) summarised the problem from a developing country perspective:

The new economic model of trade liberalization, privatization, deregulation and foreign direct investment as advocated by the Bretton Woods institutions largely ignored the microeconomic conditions for development and SMEs. The prescriptions of the Washington Consensus failed to deliver the expected results in terms of growth, productivity, equity and environmental impact in most developing countries. Development requires not only macroeconomic and political stability but also well-functioning markets and institutions. The Washington Consensus failed to include policies both for institution-building and for microeconomic improvements in the areas of competition, technology and enterprise.

The role of entrepreneurs and how they influence the propensity to export, is not clear. A clear understanding of what these drivers are will contribute to enhanced policy formulation. Trade and export promotion policies, based on all these factors, will tend to be more comprehensive and integrated.

The importance of understanding the effectiveness of different instruments of export promotion is illustrated in that many studies, at the level of an enterprise, find that exporting enterprises perform better than non-exporting enterprises (Bernard and Jensen, 1999).

The purpose of this chapter is therefore four-fold:

1. Review the literature regarding the export behaviour of firms;
2. Briefly discuss qualitative analysis;

3. Identify needs of exporters; and
4. Develop a model for exporter and enterprise development.

There is a rich body of literature dating back to the mid 1960s. The theory of export behaviour is discussed in the literature review in section 7.2. The methodological issues pertaining to qualitative analysis are discussed in section 7.3. This section also discusses how the information was collected for this study. The information that was collected and similar research undertaken in South Africa are dealt with in sections 7.4 and 7.5. Based on the needs and other motivating factors, section 7.6 proposes an export development model.

7.2 Literature review

Several attempts have already been made by analysts to formulate a basic model for the export behaviour of firms. The firms' export behaviour literature focuses on the export initiation process, identification of motivators, perceived obstacles to exporting, management issues, firm's size and the destination. These issues are also addressed by economists and contribute to improved policy making. It is clear from the research, conducted internationally, that micro-economic factors have a great influence on the export behaviour of firms.

Research by business economists dates back to the mid 1960s (Snaveley *et al.*, 1964; Tesar, 1975; Abby & Slater, 1989; Chetty & Hamilton, 1996; and Gadenne, 1999), and reveals the initiation of the export process has tended to focus on the effects of change agents, both external and internal, with the former being the most important. Numerous studies focused on perceived serious obstacles to exporting, the rationale being that government could stimulate exporting by removing these obstacles, which usually are institutional and infrastructural (Bilkey & Tesar, 1975). Major obstacles to exporting include insufficient finances, foreign government restrictions, insufficient knowledge about foreign selling opportunities, inadequate product distribution abroad, and a lack of foreign market connections. Management has a very important role to play in the export behaviour of firms. Simpson (1973) concluded that the real reason for firms not exporting is managerial apathy. A positive managerial attitude and orientation towards exports is a prerequisite for successful exporting. A lack of information and knowledge sometimes cause a negative managerial attitude. Some of the studies regard a firm's size as critical for its propensity to export, yet empirical findings on this issue have varied. Some of the studies conducted in this area could find no meaningful relationship between the size of the firm and its propensity to export. Early studies include Snaveley *et al.*, (1964), Doyle and Schommer (1976), Bilkey and Tesar (1975), Hirsch (1971) and Cavusgil (1976) while more recent research Philp (1998), Johnson *et al.*, (1999), and Smallbone (1999) on the SME's export propensities enterprises is not conclusive whether size matters.

Most of these studies find that exporting is essentially a development process with many variables influencing the export behaviour, and categorise exporters according to their stage of exporting and recommend specific interventions to increase exports. Profiles of entrepreneurs can be useful instruments in the identification of potential exporters. Most research argues that export incentives programmes should be tailored to suit the needs of the individual firm. The needs of the individual firm will be determined by the firm's position in the export development process.

From this research, attempts have been made to profile both exporters and non-exporters to identify potential exporters among firms that are not yet exporting. Studies that attempted the formulation of export profiles are Cavusgil (1976), Weiner and Krole (1967) and Snaveley *et al.*, (1964). Besides improving export development strategies, these export profiles could be used by export promotion agencies, banks, export agents ect., to identify entrepreneurs with a high potential for becoming exporters.

Export models from the business school, in common with economic models discussed above, tend to focus on identifying the variables involved, specifying the relationship among these variables at any given time, and specifying the dynamics of these relationships. An important problem in these models is the identification and selection of the vast number of variables that influence export behaviour of firms. It is not always possible to isolate the individual variables and to determine the influence of the variables on the export behaviour of firms. This situation motivated the choice of focus groups rather than a survey method.

The Uppsala model, in common with the gravity equation, argues that exporting tends to begin with the psychologically closest country and then extends progressively to countries that are psychologically more distant (Wiedersheim-Paul, Welch & Olson (1975), Johanson & Vahlne (1975), Linder (1961)).

7.3 South African exporters

As indicated in Chapter 3, apartheid resulted in many negative economic consequences, including lower entrepreneurial activity and propensity to export. The Global Entrepreneurship Monitor South Africa (2003) found that entrepreneurial activity rates in South Africa are nearly 50 per cent lower on average than in other developing countries. They ascribe this to poor formal education, lack of skills and absence of positive role models.

Besides the lack of entrepreneurs, exporting has also suffered as a result of sanctions and threat of sanctions. This threat, or even perceived threat, dissuaded many potential exporters from investing time and resources in exploiting foreign market opportunities. Even potentially

lucrative subsidies and incentives were insufficient to create an export culture until 1990. With increased market access, exporters began to explore foreign ventures more aggressively.

To create and exploit any external economies, the Department of Trade and Industry (DTI) provides funding for industry sectors to set up export councils and undertake specific trade promotion initiatives such as exhibitions, trade fairs and investment missions. The export council structure has a forum for addressing obstacles and proposals that may affect the sectors' ability to export.

The assistance provided by the DTI would be provide a higher return if the drivers and inhibitors facing exporters are better understood and addressed appropriately. The next section discusses how this can be done.

7.4 Methodology

The determinants of trade from a micro perspective can be determined either quantitatively or qualitatively. For the microanalysis a number of techniques can be used including surveys, focus groups, case studies and Delphi techniques. Surveys generally provide quantitative verification of a behavioural hypothesis while qualitative analysis stresses the understanding and analysis of data rather than the statistical techniques (Bryman & Cramer, 1990:1). Qualitative research, on the other hand, refers to the quality or character of something, often as opposed to its size or quantity. Put simply, the role of qualitative research is to tell you why; while quantitative research tells you how many. Qualitative researchers hold that reality is socially constructed through individual or collective definitions of the situation (Firestone, 1987: 16). The methodology employed therefore tends to be inductive and develops as the study progresses.

Quantitative data and statistics are almost synonymous, but, although statistics is a major component, it does not cover all of quantitative analysis. The modern paradigm is prevalent today. Cartesian philosophy overemphasises the scientific method and rational thinking while a non-linear approach, or holistic views, are needed to solve the problems of the world. The emerging paradigm is post modernism. Quantitative research tends to follow the modern paradigm while qualitative research is more concerned about relationships and therefore tends to be post-modernist. Qualitative data analysis is where data are presented in the form of words, pictures, descriptions, or narratives and anecdotes. It takes the form of a summary description of an investigator's field notes from a participant observation study. Software packages such as Atlas are even able to assist with the analysis of video footage or sound recordings. Slavin (1985:7) describes qualitative methods as studying individuals in their natural settings to see the

way in which they attribute meanings in social situations. Theory is not superimposed on the data, but emerges from the data that are collected.

The focus group method, according to Preece (1994: 131) is a qualitative procedure that produces “findings not arrived at by means of statistical procedures or other means of quantification.” Where quantitative researchers seek “causal determination, prediction, and generalisation of findings, qualitative researchers seek instead illumination, understanding, and extrapolation to similar situations.”

Quantitative data analysis techniques are standardised while qualitative analysis is inductive and less standardised. Qualitative researchers usually work with small samples of people, nested in their context and studied in depth. Quantitative researchers on the other hand aim for larger samples, stripped of their context and seek statistical significance (Miles & Huberman, 1994: 27).

Sampling strategies also vary. In qualitative analysis the researcher’s focus is decidedly theory-driven and strategies for determining the sample vary including: maximum variation (diverse variation and identifying important common patterns.); homogenous; critical case; theory based; confirming and disconfirming cases; snowball or chain; extreme or deviant case; typical case; intensity; politically important case; random purposeful; stratified purposeful; criterion; opportunistic; combination or mixed; and convenience (Miles & Huberman, 1994: 28).

Some qualitative researchers consider analysis to be an art form and insist on intuitive approaches (Miles and Huberman, 1994: 2). This chapter will not attempt a combination of quantitative and qualitative research methods, commonly referred to as triangulation. It rather uses qualitative techniques to inform policy that focuses on enterprise development. However, recent quantitative analysis of South African exporters is reported in section 7.5 below.

The focus group¹ method was chosen for its simplicity, yet ability to draw rich valuable information. The diagnostic functions of the focus group method are an import from the marketing industry and are used primarily to generate insights and hypotheses through group discussion. The focus group attempts to ask questions of a qualitative nature to determine concepts and the functionality and usability of interface design. This technique attempts to deal with a multitude of exporter requirements through highlighting, rather than focusing on, the individual needs.

¹ Since the author does not have the necessary experience in this technique, experts from Business Enterprises at UP (Pty) Ltd, part of the University of Pretoria were commissioned to undertake this. Nevertheless, the author was involved in all the other aspects and verified the findings after reviewing the raw data including the transcripts of the focus groups.

Although qualitative methods of evaluation do not attempt to compete with quantitative methods, findings can be confirmed using survey techniques. The detail provided by the in-depth analysis of particular problems, and the richness of the output compensated for qualitative evaluation.

Three focus groups were held with participants from South Africa who were to obtain their response on the most commonly asked questions about the export process. Research had previously been done to determine these factors in other countries, but the specific context of South Africa within its unique socio-economic, financial and cultural dimensions has never been explored and investigated. These factors and the resources available to exporters in South Africa were explored. Each focus group consisted of, on average, eight members and lasted one and a half hours. Three central questions were asked to elicit the information²:

- What are the main questions South-African exporters ask before or when they enter the export market?
- What resources are available for exporters? and
- What determines the level of trade?

The final question raised was: what determines exporting with two sub-categories, namely the levels of trade and the motivation that makes exporters enter foreign markets?

(i) First entry into foreign markets

The focus groups highlighted the unease enterprises had when entering any foreign markets. Assistance is required with both the decision to export and the initial preparation. This view came out strongly with both experienced, novice and non-exporters. Experienced exporters, however, felt the information, though difficult to find, is available. Once one knows what to ask, who to ask and where to look, the process is simple. Questions included:

- Where does the exporter start once they have decided to export?
- What risks are involved...What can go wrong?
- Can I lose everything?
- What does the export process entail?

² From these central questions the facilitator used non-directive communication techniques, to explore these and related themes to saturate the data to ensure depth and richness of the themes until they were repeated. Data was audio taped and transcribed verbatim for analysis. The co-facilitator kept field notes to analyse as part of the whole process. Data was then analysed by means of Tesch's method of qualitative and descriptive data-analysis using the open code method. Two independent coders experienced qualitative researchers with an advanced degree in psychiatric nursing, analysed the data. They held consensus discussions to refine data and decide on the final categories and sub-categories, to ensure the trustworthiness (validity and reliability) of the inquiry.

- What theoretical/practical preparation is needed to export?

Although there was a general awareness that exporting is important for both South Africa and the enterprise, it always tended to be put off because of these problems, particularly the perceived risk. Experienced exporters accepted these problems as part of the normal business process.

From a policy perspective training and education are important. Firms with a product that has export potential may lack knowledge of the export process. Once the entrepreneur understands the processes involved in international trade and who the service providers are, they will not only accept risk as part of normal operations but will know how to minimise it.

(ii) Access to finance

Access to finance was perceived to be an obstacle and the concerns raised were:

- What costs are involved in exporting?
- Does the exporter need (substantial) financial support?
- What financial resources are available?
- Where can the exporter obtain information on the role of the commercial banks/private sector financial support?
- Do the commercial banks require a comprehensive business plan or any other relevant documents?
- What does the exporter's relationship with the commercial banks entail?
- To what extent is financial transparency necessary in the exporter's relationship with the bank?
- Is there a bank scheme available to provide finance especially for (potential) exporters?
- In what currency should the exporter receive payment?
- What is the extent of administration/documentation and the cost thereof?
- What influences costs such as freight charges, taxes, packaging and labelling, administration, market research, advertising, commission of sales agent, legal fees, patent right fees, production, material, and labour and how should it be determined?
- How should the mark-up (profit) on the cost of the product be determined?

Experienced exporters tended not to see these as obstacles, but rather a normal part of business. Non-exporters tended to see access to finance as insurmountable without investigating the options.

Access to finance is often cited as a problem in establishing and growing businesses. The banking sector and government offer various solutions. It appears as though there is a lack of awareness of the services offered. Marketing of the programmes is therefore essential if the number of new exporters is to increase. Education and training are seen as an important intervention.

(iii) DTI's service and its incentive schemes

Although many experienced exporters were aware of the main schemes to promote exports, most were unaware of the extent and number of schemes available. Generally, the application process for assistance was perceived to be cumbersome and caused uncertainty because these schemes change often. This made planning for exporters and potential exporters difficult.

Marketing, training and education are important interventions if the inexperienced exporters are to grow. Government should review its offerings and make them more user-friendly. Incentive schemes should have clear goals and targets and be introduced only after thorough research. Although sunset clauses are important in this regard, so are guarantees that the particular programme or scheme will remain operational for a minimum period.

(iv) Motivational factors

Generally, exporters and non-exporters saw exporting as an extension of the domestic business and therefore cited the same motivations driving domestic business. They did see economic growth, domestically and internationally (as has already been point out above) as a driver. Similarly, the foreign exchange rate was an attraction. Not too much was said about the inflationary effect of a weak domestic currency.

The focus groups highlighted competitiveness, demand for product, saturation of local market, expansion of business, "fashion" trends, globalisation, accessibility of markets, and more reliable creditors as the main drivers.

(v) Focus group assessment

Although theory is not superimposed on the data when undertaking focus group research but should emerge from the data that are collected, the results tend to confirm theory. Although this study did not disaggregate exporters according to their experience or size, they often shared common views.

7.5 Quantitative research in South Africa

As explained above, this study did not attempt to verify the qualitative findings. However, from a review of various quantitative studies, many of these qualitative findings were affirmed.

Gumede (2003), for instance, confirmed these quantitative findings by using survey data that showed that enterprises with business linkages (in form of relation to parent companies or joint ventures, or otherwise engaged in networks, like business associations) have enhanced exporting probabilities. He emphasised the role of information and showed that enterprises gather useful information through business linkages and networks. In addition, linkages to foreign enterprises seem to enhance the access to capital, while local networks provided information. He concluded that industrial development broadly enhances the facilitation of linkages between small enterprises. Developing business linkages will alleviate some of the adverse factors affecting export propensities of small enterprises.

Rankin (2001) undertook a study to determine the export behaviour of firms in South Africa. Using data from a survey by the Greater Johannesburg Metropolitan Council (GJMC) and the World Bank, Rankin (2001) found that 71 per cent of firms with more than 50 employees exported. Less than half exported more than 10 per cent of their output. As such a high percentage of firms exported, these firms should be encouraged to export more. Rankin postulates a number of reasons why exporting firms do not export more:

- Exporting is perceived to be too risky and local business safer;
- Firms lack information on foreign markets;
- Exports may be unprofitable;
- Firms face supply-side constraints;
- There is a lack of skilled workers;
- Access to credit is limited;
- Capital is outdated;
- There is a limited demand for South African products because they do not meet international standards;
- Goods are too expensive because of transport costs; and
- Trade barriers could restrain South African products.

The City of Cape Town (2002a) initiated a process to examine organisational options to implement the Joint Marketing Initiative's Trade Promotion Strategy and found:

- The two most pressing needs amongst exporters and non-exporters (although in different measure) are financial assistance (high cost of marketing abroad and the high cost of transporting) and information. Non-exporters placed insufficient knowledge of how to access foreign markets and insufficient financial resources at the top of their list of barriers to getting started in exports.
- Current export support services (which drew a fairly high level of criticism from respondents) include: government financial assistance for foreign exhibition participation, payment processing and/or bank guarantees, marine/cargo insurance and dispute resolution.
- The more committed/experienced an exporter, the more demanding he becomes in terms of level, depth and quality of export support services required, and the more critical he is of existing service offerings.

At a subsequent workshop, the City of Cape Town (2002b) found that the two most pressing needs amongst exporters and non-exporters (although in different measure) are financial assistance and information. They provided the following summary:

Table 1 Needs amongst exporters and non-exporters in Cape Town

Top 5 export barriers for exporters	% of exporter respondents	Top 5 export barriers for non-exporters	% of non-exporter respondents
High cost of marketing activities	46%	Insufficient knowledge of foreign markets	76%
High transport costs, dues, surcharges	35%	Insufficient financial resources	71%
Insufficient financial resources	30%	High cost of marketing activities	57%
Foreign market entry barriers	30%	High cost of getting practical advice	52%
Infrastructure bottlenecks	24%	General lack of knowledge about the export process	52%

Source: City Of Cape Town (2002b).

Kaplinsky, Morris and Bessant (2001) point out that the goal posts for successful exporting is continually being moved. Exporters and potential exporters must therefore keep abreast of trends in global markets. After the economic devastation caused by World War II, industrialised countries reconstructed their economies a stage that ended in the early 1950s. However until the 1970s, industry faced high global demand, and neither quality nor product innovation was important from a competitive point of view. By the early 1970s, when the economic recovery was complete, full employment and basic needs had been met, customers were becoming more discerning and no longer demanded undifferentiated or poor quality goods, with low product lives. Modern markets are more and more segmented with customers having increasingly varied tastes. Critical success factors are determined within each market segment. These are distinct and reflect the different priorities and consumption habits of customers. Inevitably, not all of these factors are equally important. In some markets, price may be critical, in others it may be quality, or design.

Table 2 Critical success factors in external markets

Time period	Order-qualifying critical success factors	Order-winning critical success factors
Pre 1970	Availability	Price
1970s	Availability, price	Quality
1980s	Availability, price, quality	Differentiation
1990s	Availability, price, quality, differentiation	Time to market with new products
2000	Availability, price, quality, differentiation, time to market with new products	Price

Kaplinsky *et al.*, (2001: 22).

However as Kaplinsky *et al.*, (2001: 22) point out, these have changed over time. Since the 1970s, what was an order winning factor rapidly became an order qualifying criteria. Firms have to adapt to having quality, differentiated, products available at a better price than its global competitors. Policy-makers need to recognise these new demands on industry and adapt strategy and policy accordingly. Efforts also need to be made to prepare firms, particularly SMMEs, for these challenges.

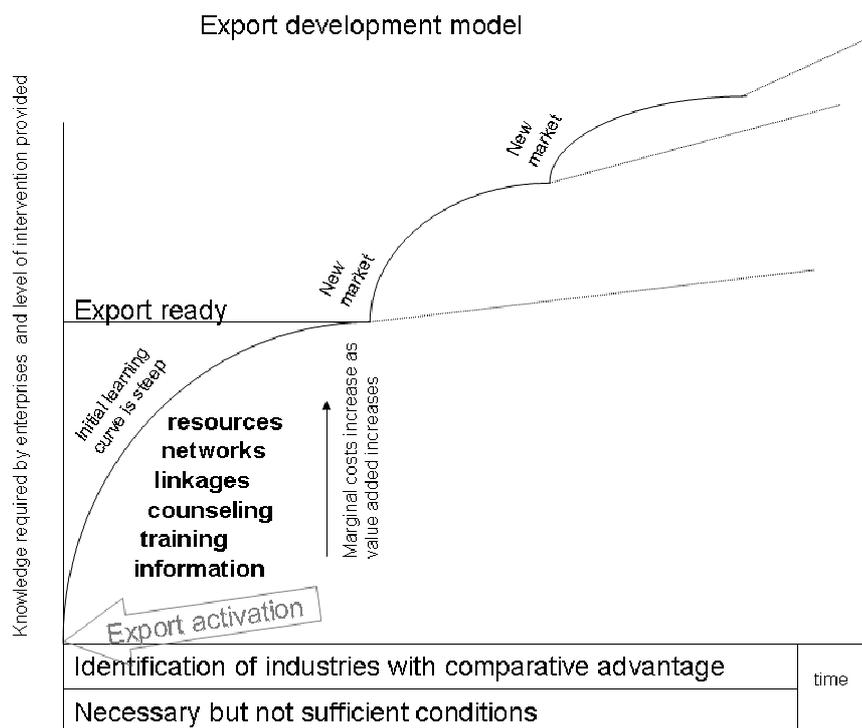
7.6 Exporter development model

Generally exporting is more challenging and risky than undertaking local business. Enterprises need to understand the needs and requirements of the foreign market. The formal requirements are often reduced to writing in the form of legislation or regulations. These are the subject of multi-lateral debates at the WTO and other fora. Although these make trading difficult enough, the unwritten codes make business across borders and cultures more complicated. Once these barriers are understood, the enterprise has to adapt to additional pressures. Since importers demand credit terms and the additional transit time in shipping goods overseas, the exporter has to find additional working capital to finance this. Generally, exporting puts pressure on the firm's administrative systems and takes a lot of management time. Risks are either commercial (firms fail to meet contractual obligations) or political (e.g. sanctions) and transfer (unavailability of foreign currency) in nature. Micro and even small firms do not have the resources to meet these additional challenges. Based on the information gleaned from the author's own experience, quantitative research and discussions with various export development practitioners, the following model is proposed.

First, effort should be made to retain exporters. Enterprises invest time and resources to become export ready. These investments are sunk costs. Either exporters exiting foreign markets (focusing on the domestic market) or simply going out of business implies that further investments have to be made by firms that take their place. Second, investment made by enterprises can be amortised across other markets. Exporters should be encouraged to grow into new markets or handle additional products. Finally, policy to encourage new exporters should be made.

The diagram below shows the migration of an enterprise from the time of export activation through to being export ready. First, it is assumed that all the functional and horizontal policies described in Chapter 1 are in place. Second, industries or sectors with export potential or exhibiting comparative advantage are selected. Enterprises within these sectors should then be “activated” or encouraged to export. These enterprises need information, which, although it is expensive to obtain has very small marginal costs.

Figure 1 Interventions required in developing export-ready enterprises



Source: Own Compilation

Government should collect and distribute critical market information to both existing and aspiring exporters as quickly and efficiently as possible. Although entrepreneurs will be able to use most of the information and process it effectively, training and education will add value to information. However, even after training interventions, an enterprise may find it difficult to develop a competitive advantage without some form of mentoring or consulting. Information is the cheapest while providing advice the most effective. A continuum of integrated information, training and export advice should therefore be provided by government to new exporters. The model can be adapted for existing exporters who are entering new markets.

However, even once this integrated support has been provided, business linkages (trade leads, trade missions, exhibitions etc) and resources (particularly finance, but also appropriately skilled

staff) are needed. Many entrepreneurs are capable of exporting, without any inventions. Others, especially SMEs and other sectors targeted by government to achieve social or political goals, will need assistance.

7.7 Conclusion

From a firm's view point, appropriate trade, fiscal and monetary policies are necessary, but not sufficient conditions to export, or indeed to do business. From the previous chapters, exports are determined by comparative advantage, irrespective of what causes it. Certain sectors therefore have a natural propensity to export. In the past, policies have been made without due consideration of firms and the entrepreneurs who run them. The information from the focus group approach provides a useful insight for enterprise development and helps fill in gaps to ensure that national Economic Policy is more effective and implemented more efficiently.

Information, with high total acquisition costs and low marginal costs, may therefore be considered a public good. Information is needed by both experienced and novice exporters. Value added to information through training, business counselling and networking is crucial to successful exporting. The role of government in this regard, needs to be investigated. However, the way information and training is packaged needs to be revisited. Exporters are different. Programmes and export promotion schemes should take cognisance of the firms experience in international markets, its size, where the firm is located and its sector or industry.

Notwithstanding the interventions described above, Government's role should focus on developing the infrastructure, reducing the costs of doing business and creating the environment in which firms can compete.