

**FACTORS CONSTRAINING EXPORTING FROM LESOTHO BASED
MANUFACTURING ENTERPRISES**

by

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SUMMARY

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Exporting is a popular mode of internationalisation for a variety of reasons. For instance, many enterprises prefer exporting because it permits them to learn from competition with minimum resources committed by the enterprise. However, it is noted in literature that enterprises face various constraints when exporting. Earlier studies, mostly conducted in developed countries, have documented several exporting constraints. The studies do not agree on the grouping of factors constraining exporting and elements that form such groupings. Also, it is acknowledged in literature that generalising findings from developed countries to developing countries would not necessarily be appropriate, hence studies in developing countries such as Lesotho are necessary and, to the researcher's knowledge, this study is the first to be conducted in Lesotho. This formal study, therefore, was carried out to test the hypotheses developed from literature regarding factors that constrain exporting.

Lesotho is land locked, being completely surrounded by the Republic of South Africa. It is believed that Lesotho's setting can bring insights into exporting as the country becomes a popular destination for export-oriented investors. Although enterprises operating in Lesotho had been exporting prior to 2000, there was a major boost of exports at the beginning of 2000 when Lesotho became eligible

for exports to the United States, Canada and European markets under the agreement in the African Growth Opportunity Act (AGOA). The AGOA agreement brought a flow of Asian export-oriented investors into Lesotho. Lesotho's exports are concentrated in the apparel and textile industries and are destined to a few countries, predominantly South Africa and the United States.

The literature review covers the globalisation of the business environment. Further, the international entry modes are discussed along with the theories that explain the decision of the enterprises to initiate the internationalisation process. Finally, the exporting mode of internationalisation is discussed detailing the constraints that enterprises face when engaging in exporting.

A questionnaire was used to collect data. The instrument first underwent a rigorous evaluation by experts who are knowledgeable about the subject. The experts proposed changes that were adopted prior to conducting a pilot study. A judgemental sampling approach was used where manufacturing enterprises located in seven of ten industrial areas in Lesotho, who agreed to participate in the study, were issued one questionnaire each. The questionnaires were distributed to key informants who were regarded as managers directly responsible for international operations. Alternatively, chief executive officers were approached in situations where enterprises did not employ international operation's managers. A response rate of 94.7 percent was obtained.

The study revealed that exporting constraints are internal to the enterprises and that three factors, as opposed to the five that were hypothesised, constrain exporting. The study further revealed that perceived exporting constraints varied according to the size of the enterprise as well as the ownership structure thereof.

Recommendations were made relating to actions aimed at minimizing exporting constraints. Lastly, future areas of research were identified.

The study will be beneficial to enterprises as they will be able to adopt suitable measures to overcome or reduce the impact of exporting constraints. Also, the study will inform policy makers in Lesotho with regards to areas where

appropriate assistance should be provided. In addition, the study would inform business educators regarding areas of training for exporters, which will address the training needs of exporters. Lastly, researchers interested in exporting will find other avenues that can be researched in order to build the field of exporting.

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CHAPTER 1

INTRODUCTION AND PROBLEM STATEMENT

1.1. INTRODUCTION

According to the Uppsala/ Stage model exporting is the first step of the internationalisation process (Johanson & Vahlne, 1990:11). The model is based on the perception that enterprises gradually internationalise in an incremental manner through a series of stages starting with exporting and eventually expanding to other forms of internationalisation. Hence exporting became the most common mode of entry into foreign markets as it lays a critical foundation for advancement into other forms of international business (Morgan, 1997:68; Leonidou & Katsikeas, 1996:519; Hill, 2005:487).

Exporting has a special status over other forms of internationalising. According to Czinkota (2002:123-124), exports are special to nations because they are the main support of international economic performance; they shape the public perception of the competitiveness of a nation and also determine (at least in the long term) the level of imports that a country can afford. Exports not only support international economic performance, but also contribute to GDP growth (Ahmed, Cheng & Messinis, 2007:10). According to Ahmed et al. (2007:10), exports improve productivity growth through the following means:

- Enabling the adoption of foreign technologies
- Greater capital utilisation and utilisation of advantage of economies of scale and comparative advantage
- Helping create a conducive and stable macroeconomic environment through increasing employment, labour productivity and enhancement of the country's external earning power

The African Development Report (2004:127) also supports the distinctive character of exporting with regard to inducing growth. The report points out that

exporting provides countries with foreign currency to pay for the import requirements for growth. Ruth (1998:274) also notes that exporting is the only form of internationalisation that contributes to the improvement of the balance of trade. According to Osland, Taylor and Zou (2001:156), enterprises in different countries use the exporting mode of entry for a variety reasons. In their study, they established that the USA managers chose exporting to gain economies of scale so that they could reduce costs in order to be able to cut the price to the consumer and also to minimise the resources committed to the business venture. The Japanese managers on the other hand used exporting to gain first movers advantage, as exporting is the quickest means of entry into foreign markets. According to Czinkota (2002:123), exporting affords enterprises an opportunity for market diversification, thus providing stability, as an enterprise is not dependent on any particular market. In addition, exporting permits an enterprise to learn from competition, be sensitive to different demand structures, and lets an enterprise appreciate divergent cultures. Van Biesebroeck (2005:389) indicates that exporting enterprises are afforded greater opportunity to absorb foreign knowledge and as such become more productive than domestically oriented enterprises in the same location and industry.

The literature indicates that exporting is important and the benefits accruing from it are less likely through other modes of entry and/or are fewer than when other modes are used. However, it is noted that enterprises are confronted with many constraints when they attempt to enter foreign markets (Tesfom & Lutz, 2006:277; Leonidou, 2004:280). A number of studies have identified various export constraints or barriers inhibiting the entrance of enterprises into the international market place. Export barriers can be encountered by enterprises at different stages of internationalisation, that is, before enterprises engage in foreign operations (pre-export), in the early stages of entry into foreign markets and as experienced exporters (Morgan, 1997:73; Leonidou, 2004:281). Earlier studies have documented various export constraints/barriers faced by enterprises

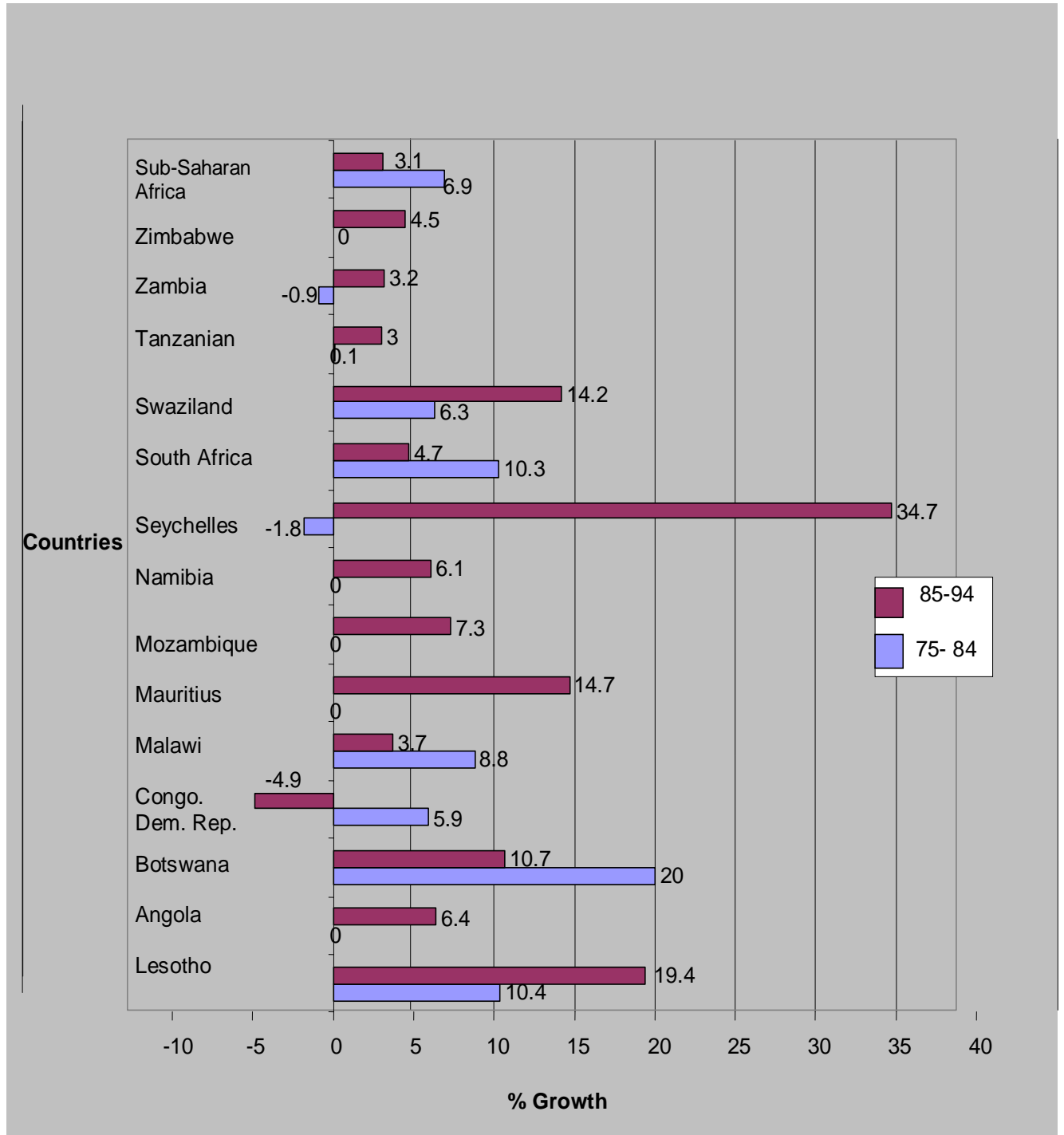
in developed countries (Kaleka & Katsikeas, 1995:499; Mahajar & Hashim, 2002:70; Leonidou, 2004:286; Tesfom & Lutz, 2006:277).

Leonidou's review (2004:281), based on studies from developed countries, classified export barriers according to the source, that is, barriers emerging from within the enterprise referred to as internal barriers and those from the host or home environment, referred to as being external. Leonidou (2004:281) further divides the internal barriers into functional, informational and marketing categories, while external barriers are separated into procedural, governmental, task and environmental categories. Leonidou's review (2004:286) did not only list barriers affecting the exporting, but consolidated the rankings of barriers according to their impact as rated by both exporters and non-exporters. He (Leonidou, 2004:296) found that the barriers that have a strong obstructing effect to enterprises were barriers pertaining to informational inefficiencies, price competitiveness, foreign customer habits and politico-economic hurdles. The analysis also showed that the frequency, intensity or importance of export barriers can vary according to different time, spatial and industry contexts.

According to Tesfom and Lutz (2006:263), a number of studies that show how export constraints/barriers affect enterprises from developing countries have been conducted and findings published, to name a few, Weaver and Pak (1990), Brooks and Frances (1991) and Burgess and Oldenboom (1997). Tesfom and Lutz's (2006:269) reviews based on studies from developing countries classified export constraints/barriers into internal and external. Further, internal constraints were categorised as enterprise barriers and product barriers. However, the external barriers were categorised as industry barriers, market barriers and macro-environment barriers.

1.2. PROBLEM STATEMENT AND RESEARCH QUESTIONS

Figure 1.1: Average annual percentage growth in merchandise exports for selected sub-Saharan African countries



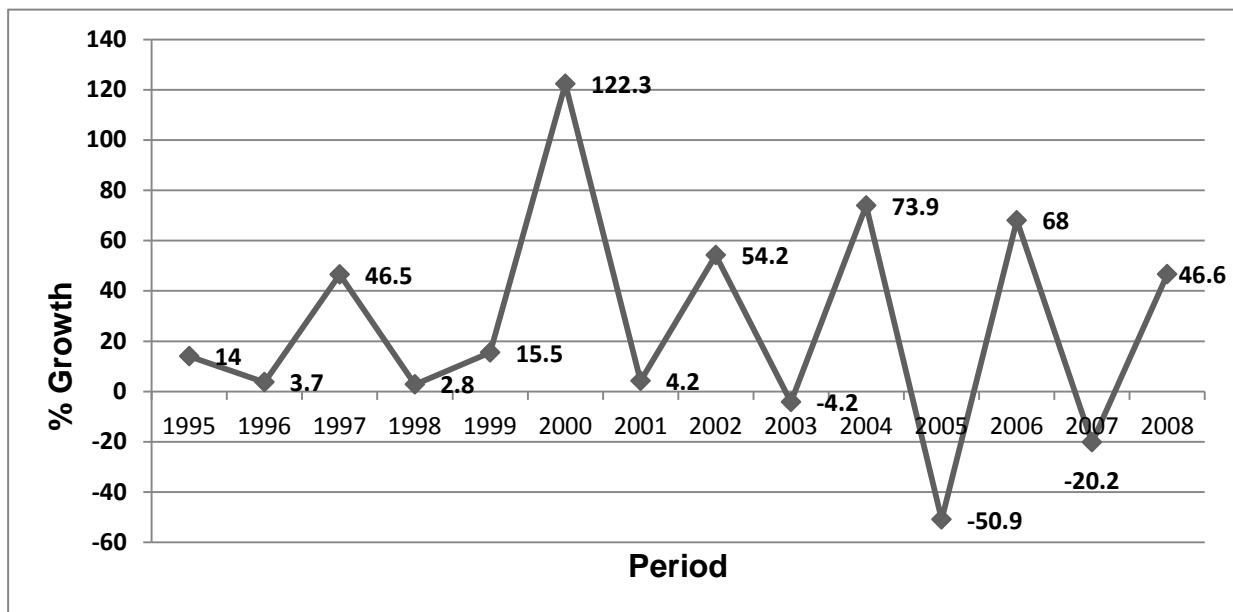
Source: World Bank (2004:72)

Statistics on export growth as reflected in figure 1.1 indicate that exports from Lesotho have been increasing. In the period 1975 to 1984, exports from Lesotho grew by 10.4 percent while in the period 1985 to 1994 the growth rate was 19.4 percent. Lesotho's export growth compares well with other sub-Saharan African (SSA) countries when looking at the said data in figure 1.1 (Hassan, 2002:85).

In fact, the export growth rate in Lesotho as shown in figure 1.1 was above the combined average annual percentage growth of all the mentioned SSA countries.

The merchandise exports for Lesotho continued to increase for the period 1995 to 2008 except for 2003, 2005 and 2007 (see figure 1.2).

Figure 1.2: Annual percentage growth in merchandise exports in Lesotho



Source: Bureau of Statistics (2010:11)

The growth in exports in the 1980s came about as South African enterprises operated in Lesotho to avoid apartheid-era trade sanctions (Salm et al., 2002: 14; Lall, 2005:1004). The Lesotho National Development Corporation's (LNDC) promotion of an export oriented manufacturing sector in the early 1990s also

resulted in the growth of exports, especially textiles (Central Bank of Lesotho, 2006(b): 1).

The signing of the African Growth Opportunity Act (AGOA) in 2000 brought yet another flow of Asian FDI into the apparel and textile industries (Multilateral Investment Guarantee Agency (MIGA), 2006:23; Central Bank of Lesotho, 2006(b): 2). The Bureau of Statistics (2002:11) indicates that in 2002 the newly opened textile industries continued to emerge in Lesotho. MITM (2003:23) concurs that FDI attracted business in the manufacturing sector, which contributed to exports from Lesotho. However, figure 1.2 depicts a fluctuating pattern in the growth of merchandise exports.

According to the Central Bank of Lesotho (2004, 2006(a)), Lesotho's exports are dominated by clothing and garments. While Ng and Yeats (2004:157-160) are in agreement that products exported to the USA from Lesotho are predominantly confined to clothing and garments, the authors further noted that Lesotho exports a limited line of clothing. According to the said authors, only 21 four-digit Standard International Trade Classification (SITC) products were exported by Lesotho to the USA out of a possible 1100 individual products. SITC is a nomenclature used to categorise imports and exports (International Trade Centre UNCTAD/WTO, 2001:9). According to the Bureau of Statistics (2003: 1, 9, 17), foreign trade data in Lesotho is aggregated according to the Harmonised system (HS); the classification is subsequently converted to SITC revision 3 (see table 1.1). According to the Bureau of Statistics (2003:1), the SITC headings are familiar to most users of their data and has a one-to-one correspondence with the Harmonised system (HS).

SITC 0, 1, 2, 3 and 4 classify exports of primary goods, while SITC 5, 6, 7 and 8 classify manufacturing goods (Ng & Yeats, 2004:157). SITC Revision 3 maintains the basic 10-section structure as displayed in table 1.1. The International Trade

Centre UNCTAD/WTO (2001:10) maintains that conversion of data from HS to SITC is possible.

Table 1.1: SITC Rev. 3 heading groupings

Heading	Description
0	Food and live animals
1	Beverages and tobacco
2	Crude materials, inedible except fuels
3	Mineral fuels, lubricants and related materials
4	Animal and vegetable oils, fats and waxes
5	Chemicals and related products not elsewhere specified
6	Manufactured goods classified chiefly by material
7	Machinery and transport equipment
8	Miscellaneous manufactured articles
9	Commodities and transactions not classified elsewhere in SITC

Source: Bureau of Statistics (2003:18); International Trade Centre
UNCTAD/WTO (2001:10)

The twelve of the largest four-digit SITC products of the 21 four-digit SITC that are exported from Lesotho to the USA are:

- Trousers and overalls
- Jerseys and pullovers
- Bib trousers and overalls
- T-shirts
- Knit textile shirts
- Suits and ensembles
- Knit blouses and shirts
- Baby garments
- Garments, not elsewhere specified
- Overcoats and anoraks

- Skirts of woven textiles
- Jackets blouses.

Lesotho's export statistics supports the contention put forward in Ng and Yeats (2004) that clothing is the dominant export from Lesotho. Table 1.2 portrays the shares of exports by SITC categories, and as can be seen, category 8 is dominant, relating predominately to clothing and footwear (Bureau of statistics, 2003:3).

The dominance of clothing in Lesotho's export is a problem as clothing has been successful in the international markets due to preferential access under the AGOA, without which the export future is bleak for the country (Sandrey, Maleleka, Matlanyane & Van Seventer, 2005:3).

AGOA is a unilateral trade preference programme that offers Central American, Caribbean and SSA countries access to the United States' (US) market (Collinson, 2003:3). AGOA grants eligible countries duty-free treatment for specified products. AGOA was signed into law in 2000 and is expected to expire in 2015 (Schaefer & Markheim, 2006:2; Congressional Research Service, 2003:10, 13; Langton, 2008:13).

Prior to AGOA the sub-Saharan countries did not have access to markets of the developed countries, especially the USA and Europe, because the developed countries imposed barriers to the entry of textiles and clothing from developing countries. According to Nordås (2004:13), the protection of textiles and clothing started in the 1950s when Japan, Hong Kong, China, India and Pakistan agreed to voluntary restraints for cotton textile products to the United States. The voluntary export restraints, known as international trade in cotton textile, according to Nordås (2004:13) turned into a long term agreement which was later replaced by the multi-fibre agreement (MFA) in 1974 under the auspices of GATT. Under the MFA, the developed countries imposed quotas on exports of

yarn, textiles and apparel from developing countries (Chadha et al., (n.d.)). According to Nordås (2004:13), the MFA extended restrictions on trade to wool and manufactured fibres. In January 1995, when the World Trade Organisation (WTO) was established, it put into effect a new agreement called the Agreement on Textiles and Clothing (ATC), which phased out the MFA over a 10-year period (Central Bank of Lesotho: 2004; Nordås: 2004:13). Nordås (2004:15) notes that, largely, the ATC have kept liberalisation to a minimum; whenever possible, certain restrictions were retained under the so called “sensitive area clause”. In 2000 AGOA was introduced with the aim of integrating SSA countries into the global economy as they were finding it difficult to enter the global markets under the ATC arrangement.

Table 1.2: Lesotho’s percentage composition /shares of exports by SITC categories

SITC	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
0	6.1	2.2	5.5	2.7	1.5	2.0	2.1	2.2	4.8	4.9
1	7.0	2.8	8.9	4.4	5.7	3.0	0.0	0.0	6.0	6.0
2	6.3	0.1	3.0	5.2	0.5	0.8	1.9	1.5	3.6	3.5
3	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.1	0.0
4	0.0	0.0	0.0	0.0	1.4	0.0	0.1	0.1	0.0	0.0
5	2.8	0.3	0.6	0.6	0.1	0.4	0.2	0.1	0.2	0.2
6	5.7	0.4	3.7	7.9	2.3	13.8	4.8	1.5	2.7	8.4
7	6.0	7.7	8.0	5.1	1.8	3.4	5.7	4.7	13.8	13.8
8	66.2	86.5	70.3	73.8	86.4	76.5	84.9	89.8	68.8	63.2
9	0.0	0.0	0.1	0.3	0.2	0.1	0.2	0.1	0.0	0.0

Source: Bureau of Statistics (2010:11)

SSA countries are not automatically eligible for AGOA benefits. They are eligible for these benefits only if they meet or are making progress towards the following: (Collinsons: 2003:6; US Interfaith Trade Justice Campaign: 2006; Schaefer & Markheim, 2006:2):

- Establishing a market based economy
- Rule of law
- Elimination of trade barriers to US trade and investment
- The protection of intellectual property
- Effort to combat corruption
- Policies to reduce poverty
- Increasing availability of health care and education opportunities
- Protection of human rights and worker rights
- Elimination of child labour.

Currently, 37 SSA countries have been designated as being eligible for AGOA (Schaefer & Markheim, 2006:2). These countries can access the US market with up to 1800 products and in addition to items that were already allowable under the generalised system of preference (GSP), SSA countries can export up to 6400 products to the US market (US Interfaith Trade Justice Campaign, 2006).

The top five AGOA beneficiary countries are Nigeria, Angola, Gabon, the Republic of South Africa and Chad. However, when excluding oil imports, the top five countries include the Republic of South Africa, Lesotho, Kenya, Madagascar and Swaziland (Johnson, 2005; Diamond, 2001:3).

The countries, inclusive of Lesotho, that qualified for AGOA attracted FDI into their countries as enterprises operating within them had access to markets they otherwise would not have had. The enterprises that were attracted to operate in Lesotho were those whose countries were still restricted from entering markets such as the USA by the ATC, and who would be able to enter such markets if operating from Lesotho as it was given concession under AGOA. Enterprises that were attracted to Lesotho in order to avoid restrictions from the USA, Canada and Europe, mostly stemmed from Asia (MIGA: 2006:34). It is therefore important to note that FDI into Lesotho was brought about by AGOA and if it ends, it is likely to exacerbate the volatility of the Lesotho exports.

Also, one notes that Lesotho's exports are vulnerable to adverse international developments because of low destination diversification. As indicated in table 1.3, Lesotho's exports within the SACU region are predominantly destined for South Africa.

Table 1.3: Percentage of export to SACU members

Region	2001	2002	2003	2004	2005	2006	2007	2008
Botswana	0.10	0.11	0.0	0.4	0.0	0.0	0.0	0.0
Namibia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
South Africa	53.0	39.6	19.4	18.0	99.8	16.3	43.6	39.9
Swaziland	0.07	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Bureau of Statistics (2010:17)

Likewise the USA accounts for a larger portion of exports to regions outside SACU, as portrayed in table 1.4.

Table 1.4: Percentage of export to other regions outside SACU

Region	2001	2002	2003	2004	2005	2006	2007	2008
America ¹	38.6	51.0	79.1	68.8	0.2	83.6	52.3	53.5
Asia ²	0.1	3.8	0.1	0.0	0.0	0.0	0.0	0.2
Europe ³	7.9	4.2	1.2	12.6	0.0	0.0	4.1	5.4
Other Africa countries not SACU members	0.3	1.3	0.2	0.3	0.0	0.1	0.0	0.9

Source: Bureau of Statistics (2010:15)

Notes:

1. America relates to USA, Canada, Chile and Mexico.
2. Asia relates to Hong Kong, Sri Lanka, South Korea, Taiwan, Qatar, Jordan, Japan and Singapore.
3. Europe covers United Kingdom, Germany, New-Zealand, Switzerland, Belgium, Australia, France, and the Netherlands.

Even when Lesotho's exports were increasing, despite fluctuating growth rates, exports still fell below imports as reflected by the ten-year statistics in table 1.5.

Table 1.5: Lesotho's exports, imports and balance of trade in (mil) Maloti

Year	Exports	Imports	Balance of Trade
1999	1046.9	3888.5	-2841.6
2000	2327.5	4236.2	-1908.7
2001	2425.9	5119.1	-2693.2
2002	3739.8	8366.4	-4626.6
2003	3582.6	8371.9	-4789.3
2004	6228.8	8976.8	-2748.0
2005	3056.2	5091.6	-2035.4
2006	5133.1	5730.5	-597.4
2007	4097.5	6783.9	-2686.4
2008	6007.6	6765.8	-758.2

Source: Bureau of Statistics (2010:18)

It can be inferred from the discussion that Lesotho based manufacturers are likely to face a number of challenges when they attempt to enter the markets outside Lesotho through exporting. Firstly, it is noted that exports of manufactured goods do not increase significantly, even when the number of export oriented enterprises are recorded to have increased; hence, Lesotho continues to experience a negative balance of trade. Secondly, Lesotho based manufacturing enterprises also fail to diversify into exporting other products as their products are predominantly confined to textiles and apparel. Thirdly, there is low destination diversification as exports are destined to only a few countries and if any problems arise in those markets, the export of such enterprises will be adversely affected. Lastly, it is noted that exports from Lesotho are related to the introduction of the AGOA, which is about to end. It is important to determine whether exporting activity in Lesotho can survive the cessation of the AGOA.

Hence the study was carried out to determine the factors that constrain exporting from Lesotho based manufacturing enterprises.

1.3. RESEARCH SETTING

1.3.1. Physical Characteristics

Lesotho is a land locked country and completely surrounded by the Republic of South Africa (Ng & Yeast, 2004:157; Ministry of Industry, Trade and Marketing (MITM):2003:1). The population of the country is 1.88 million according to 2006 census (Bureau of Statistics, 2009:134; Ministry of Development Planning, 2012:11). Literacy rate in Lesotho is over 80 percent. MIGA (2006: 23) estimated it at 83 percent for 2004 while the United Nations development programme (2006: 325) estimated it at 82.2 percent for the same period. Bureau of Statistics (2009:134) estimated it at 87 percent for 2006. The high literacy level provides labour that can be easily retrained into newer skills (Salm, et al. 2002: 15; Central Bank of Lesotho, 2006(a)). The country has a stable political environment (African Economic Outlook: 2009:528; Ministry of Trade and Industry, Cooperatives and Marketing (MTICM), 2008:7).

1.3.2. Economic environment

The economic output activity in Lesotho is divided among the primary economic sector (agriculture, mining and quarrying), the secondary sector (manufacturing, electricity and water and construction) and the services/tertiary sector (Central Bank of Lesotho, 2006(b): 10). GDP (nominal) is estimated at 2 billion (International Renewable energy Agency (IRENA, n.d:1). The economic output has been strongly supported by secondary and tertiary sectors over the years. According to Matlanyane (2005:10), in 1990, the primary sector contributed 20 percent to GDP, secondary and tertiary sectors accounted for 40 percent each to GDP. Coutsoukis (1999) indicates that in 1996 the primary economic sector

accounted for 14 percent of the GDP, the secondary and services/tertiary sectors accounting for 42 percent and 44 percent of the GDP respectively. In 2005 according to CBL (2006(b): 11) the primary sector accounted for 20 percent of GDP, secondary sector was 35.2 percent of GDP while the tertiary sector was 44.8 percent of GDP.

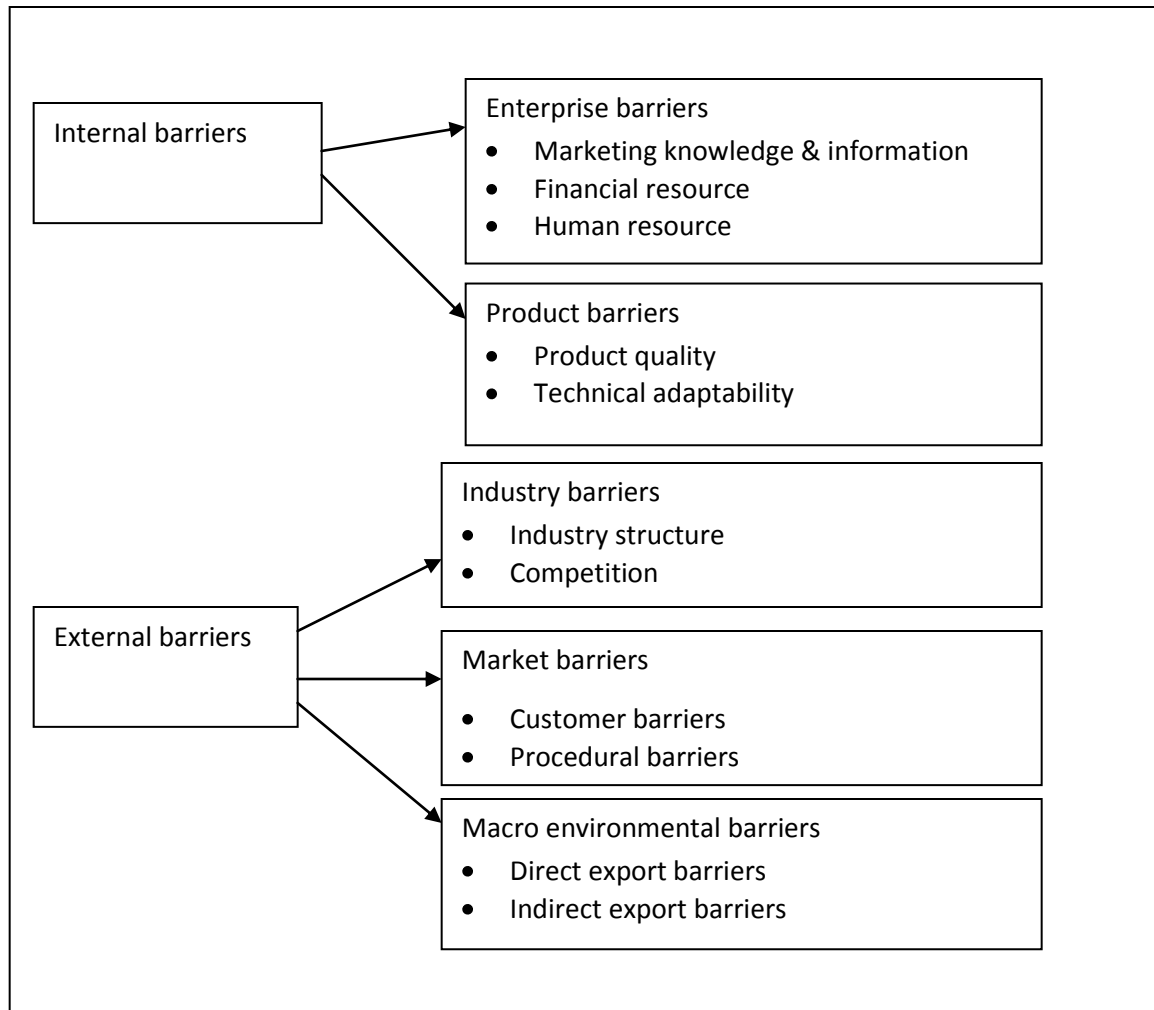
The manufacturing component has been the main contributor to the secondary sector (Sandrey et al., 2005:13; Central Bank of Lesotho, 2006(b):16; Ministry of Development Planning, 2012:15). The growth of the manufacturing sector in Lesotho is mainly driven by the garment and textile sector since 2001 with the inception of AGOA.

Lesotho is a member of two regional arrangements namely, the South African Customs Union (SACU) and the South African Development Community (SADC) and is also a member of the World Trade Organisation (WTO) (MITM, 2003, 38-51). The Central Bank of Lesotho (2006(b): 7) shows that SACU also negotiates numerous free trade agreements with major trading blocs, such as European free trade association (EFTA), thus improving market access of member countries even beyond their region.

1.4. LITERATURE REVIEW AND HYPOTHESES

Investigations on export barriers have been conducted over the last two decades (Kaleka & Katsikeas, 1995:499; Crick & Chaudhry, 2000:30). According to Leonidou (1995:6), the thrust of the research effort on export barriers occurred in the 1980s and early 1990s even though the first empirical research in the area appeared in the mid-1960s. Literature reveals that there are a number of factors that have been identified as constraints to exporting and that such export barriers faced by enterprises are multi-dimensional (Crick & Chaudhry, 2000:30; Tesfom & Lutz, 2006: 277).

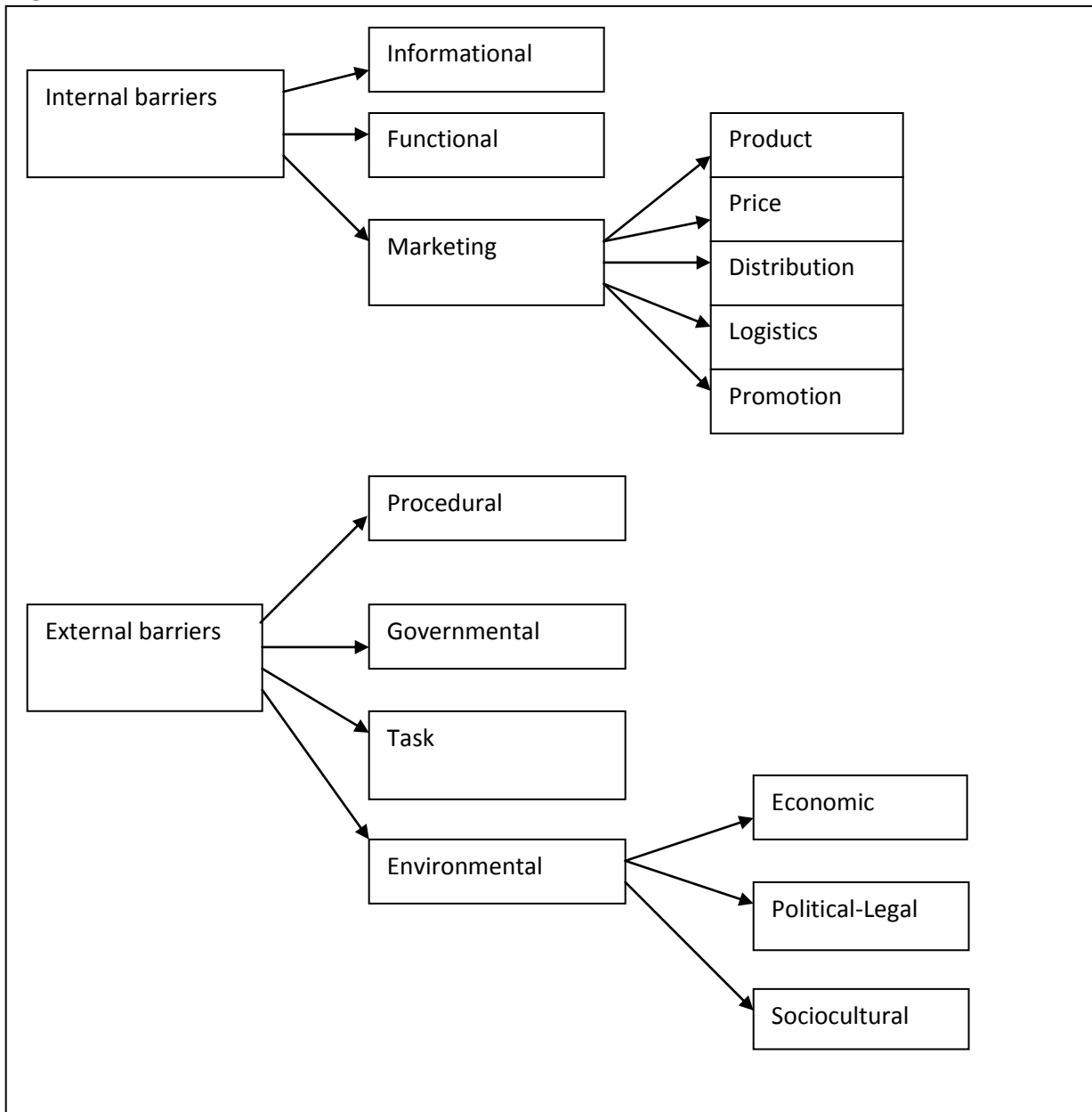
Figure 1.3: Tesfom and Lutz's classification of export barriers



Source: Tesfom and Lutz (2006:269)

According to Tesfom and Lutz (2006:277), the research focus is shifting from being exploratory aimed at identifying export barriers, to testing the effect of export barriers on a variety of dimensions. Sullivan and Bauerschmidt (1989:18) are of the view that testing the concepts in differing economic, political, cultural and institutional settings is beneficial and necessary as it creates the contextual meaning needed to evaluate the robustness of the prevailing theories. In fact, Akbar and Samii (2005:389) point out that emerging markets are an important testing ground for existing theories, models and concepts of business and management and can also offer the opportunity for the development of new theoretical contributions in the field of management and business studies.

Figure. 1.4: Leonidou's classification of export barriers



Source: Leonidou (2004:283)

Hence, the study of barriers to exporting from Lesotho based manufacturing enterprises is relevant in order to contextualise the findings and to also test the theories that have emerged in this area of study.

Tesfom and Lutz's (2006:269) review concluded that export barriers in developing countries can be categorised into two major groups, that is, internal and external barriers. The main groups are subdivided into five sub-groups

namely, enterprise, product, industry, market, and macro-environmental barriers (see figure 1.3).

Leonidou's (2004:283) review also identified two main groups of export barriers, namely, internal barriers and external barriers. Leonidou's review, however, reports seven sub-groups where the marketing and environmental sub-groups are further divided into five and three sub-groups respectively (see figure 1.4).

The reviews based on studies carried out in developing and developed regions agree on the main groupings, that of internal and external barriers. The reviews, however, do not agree on the sub-groupings, nor do they agree on the elements that form the sub-groupings. Hence, studies carried out in a different context could contribute to addressing these discrepancies. As the study conducted by Tesfom and Lutz (2006) focused on developing countries, it will be used as a starting point to set the hypotheses that follow.

According to Tesfom and Lutz (2006:272), enterprise barriers relate to constraints emanating from within the enterprise as a result of limited capabilities. Fillis (2002:920) established that small enterprises blamed their failure to export on internal problems such as limited production capabilities. According to Da Silva and Da Rocha (2001:606), however, certain enterprises attribute more weight to external forces as factors that hamper their exporting activity. The authors indicate that this phenomenon has been documented in social psychology. According to the said phenomenon, managers will attribute problems to external causes that are not under their control instead of taking responsibility for the difficulties they encounter. It is therefore hypothesised that:

- H₁₀: Enterprise barriers do not constrain exporting from Lesotho based manufacturing enterprises.
- H_{1a}: Enterprise barriers constrain exporting from Lesotho based manufacturing enterprises.

The elements of product barriers as grouped by Tesfom and Lutz (2006:272) cover issues of product quality and technical/adaptation barriers. Generally, enterprises are confident about their offering such that they do not regard their problems with regards to exporting to emanate from their product quality nor their inability to adapt such products for the foreign market. For instance, Pope (2002:20) found that enterprises did not regard product quality as a challenge; they were confident that their products were of good quality. Leonidou's review (2004:286) also established that the ability of enterprises to adapt their product to foreign demand and to develop a new product for foreign markets was regarded as having the lowest impact on enterprise exports. It is therefore hypothesised that:

H₂₀: Product barriers do not constrain exporting from Lesotho based manufacturing enterprises.

H_{2a}: Product barriers constrain exporting from Lesotho based manufacturing enterprises.

According to Tesfom and Lutz (2006:274), market barriers relate to product requirements in the export market, the country of origin, cultural similarity and brand familiarity. In addition, lack of similarity of legal and regulatory frameworks of the exporting countries and lack of familiarity with market export procedures, are mentioned as export market barriers. Siringoringo et al. (2009:54) classify the factors defined as market factors by Tesfom and Lutz (2006:274) into two groups, namely, customer and procedural barriers. Customer barriers, according to the said authors, cover the customer perceptions of product characteristics, while the concept of procedural barriers relates to exporting concerns of time and paper work requirements to comply with foreign and domestic market regulations. Regardless of how these barriers are classified, a number of studies were conducted in order to discover the influence of the said barriers on export behaviour and performance. For instance, Whitelock and Jobber (2004:1450), in their study, which was meant to identify factors that discriminate between the

decision to enter or not to enter a new foreign market, indicate that market attractiveness and good market information played a significant role in determining whether or not to enter a foreign market. Köksal and Kettaneh (2011:119-123), in their comparative study of the Turkish and Lebanese enterprises reveal that perceptions of enterprises in different countries differ. The study indicated that international competition in the target market was found to be an important factor which positively influenced the export performance of exporters in the two countries. Certain barriers, especially market barriers, were perceived differently by enterprises from the two countries. Packaging and brand image for instance were found to be a significant factor affecting Turkish export sales volumes, while this was not significant for Lebanese enterprises. It is assumed that while in some countries market barriers could be a constraint, in others it was found that such potential barriers would not be significant. Hence it is hypothesised that:

H₃₀: Export market barriers do not constrain exporting from Lesotho based manufacturing enterprises.

H_{3a}: Export market barriers constrain exporting from Lesotho based manufacturing enterprises.

According to Tesfom and Lutz (2006:274), macro environmental barriers relate to issues such as tariffs and absence of international agreements. As discussed earlier in this chapter, developed countries protected their textile and clothing industry by imposing import quotas on such products from developing countries. The protection was implemented to protect the sector because it contributed significantly to employment in the developed countries and with the influx of textiles and clothing from developing countries, such imports would threaten the survival of the textile and clothing sector in the developed countries (Nordås, 2004:1). However, developed countries, realised that SSA countries –such as Lesotho– were failing to enter the global markets under the set restrictions. In an attempt to integrate such countries into the global market, the SSA countries

under the AGOA agreement were allowed access duty and quota-free into developed countries (Schaefer & Markheim, 2006:1). Given this preferential treatment that Lesotho based manufacturing enterprises are currently enjoying, it is therefore hypothesised that:

H_{4o}: Macro environmental barriers do not constrain exporting from Lesotho based manufacturing enterprises.

H_{4a}: Macro environmental barriers constrain exporting from Lesotho based manufacturing enterprises.

A source of performance differences among enterprises has led to a debate regarding strategy (McGahan & Porter, 1997:15). Industrial organisations and resource-based views have offered different explanations regarding factors contributing to differences in performance of enterprises (McGahan & Porter, 1997:15; Hawawini, Subramanian & Verdin, 2003:1; Singh, Pathak & Naz, 2010:169). According to Tesfom and Lutz (2006:273), industry structure determines an enterprise's strategy in the domestic market in order to develop a proper export marketing strategy. Singh et al. (2010:162) note that successful enterprises and industries are not evenly geographically distributed within areas with seemingly identical factor endowments. Successful industries, according to the aforementioned authors, are found where there are clusters of enterprises that are linked horizontally or vertically. The authors indicate that where clusters exist, enterprises in such clusters gain competitive advantage. It means that there are regions where enterprises are not clustered and therefore would not be influenced by industry factors. Industry characteristics, according to Singh et al. (2010:169), comprise economies of scale, barriers to entry, product diversification and the degree of concentration. According to Frazier, Bruss and Johnson (2004:443), where there are clusters, the industry members command a lot of power, for instance, they can influence government policies, and as such improve their domestic environment, which in turn enhances their likelihood to internationalise. Frazier et al. (2004:443) found that where enterprises are small

and mostly operate in the informal sector, they lack power to influence government policies. It means that the composition of the cluster also influences the extent to which enterprises are influenced by industry factors. Empirical studies carried out by Hawawini et al. (2003: 14) and Singh et al. (2010:169) revealed that industry factors mattered little to enterprise performance. In fact, Singh et al. (2010: 173) found that all industry sectors did not exhibit different performance levels, nor did they consider industry factors to have any bearing on their exporting activities. It is therefore hypothesised that:

H₅₀: Industry export barriers do not constrain exporting from Lesotho based manufacturing enterprises.

H_{5a}: Industry export barriers constrain exporting from Lesotho based manufacturing enterprises.

Apart from merely listing export barriers, certain studies ventured further to determine the differences in perception of exporting barriers based on certain enterprise characteristics. According to Manolova et al. (2002:23), the perceptions of managers constitute a general predictor of internationalisation. For instance, Crick and Chaudhry (2000:33-34) investigated whether managers operating in different industries have dissimilar perceptions towards export barriers. The study investigated perceptions of managers operating in industries that were classified into four 1992 standard industrial classifications (SIC), namely:

- SIC 01: Agriculture, hunting and related service activities.
- SIC 02: Forestry, logging and related service activities.
- SIC 05: Fishing, operation of fish hatcheries and fish farms, plus service related activities.
- SIC 29.3: Manufacture of agricultural and forestry machinery.

The findings of the study revealed 10 barriers that exhibited statistical differences between the groups of enterprises, that is:

- Restrictions imposed by foreign rules/regulations
- Unfavourable exchange rate/unconverted currency
- Different product standards/specifications abroad
- Different foreign consumer habits/attitudes
- Keen competition in foreign markets
- Existence of language communication problems,
- Inability to offer technical/after-sales service
- Insufficient production capacity
- Untrained export staff
- Difficulty in obtaining insurance.

On the one hand, there were three export barriers that were consistently rated highly by all the groups as areas that present barriers to exporting, namely:

- Difficulties/slow collection of payments abroad
- Unfavourable exchange rate/unconverted currency
- Inability to offer competitive prices abroad

Sullivan and Bauerschmidt's (1989:21) comparative study of the perception of European and American managers in the paper industry determined that European and American managers rated two barriers, namely, high value of exporter's currency relative to export markets and high transportation costs to transport products to foreign markets as being the most daunting barriers to export. The European and American managers differed on managerial interest in export where 46.1 percent of American respondents indicated that the management emphasis on developing domestic market was more than somewhat important as a barrier to export, whereas only 11.3 percent of the European respondents held the same view.

From the discussion above, one gathers that managers of enterprises operating in the same industry can differ in perception towards certain export barriers, while they could display similarities in perceptions regarding certain export barriers.

This would be the same for managers from different industries; hence it is hypothesised that:

H_{6o}: The perceptions of managers in Lesotho based manufacturing enterprises towards export barriers do not vary according to industry.

H_{6a}: The perceptions of managers in Lesotho based manufacturing enterprises towards export barriers vary according to industry.

Another enterprise characteristic related to perception of export barriers is enterprise size. Enterprise size is measured using the number of employees, as researchers have determined that managers are more willing to provide employment information than sales volumes (Katsikeas & Morgan, 1994:21). Katsikeas and Morgan's (1994:25) findings revealed that smaller enterprises perceived higher levels of exporting problems than larger ones in three areas, namely, information about the export market, product adaptation, and exogenous logistical constraints. Da Silva and Da Rocha (2001: 600-601) found that larger enterprises perceived themselves as being more affected by corruption in their international operations than small and medium enterprises did. There seem to be agreement on the fact that enterprise size affects the perception of barriers. It is assumed that larger enterprises are likely to have greater resources, which are associated with lower levels of perceived risk in export market activities (Katsikeas & Morgan, 1994:20; Suárez & Álamo-Vera, 2005:260). Aaby and Slater's study (1989:43, 49, 50), on the other hand, found conflicting evidence with regard to the relationship between enterprise size and exporting activity, where manager perceptions did not differ with enterprise size. It is therefore hypothesised that:

H_{7o}: The perceptions of managers in Lesotho based manufacturing enterprises towards export barriers do not vary according to enterprise size.

H_{7a}: The perceptions of managers in Lesotho based manufacturing enterprises towards export barriers vary according to enterprise size.

Another area of particular interest to researchers is the ownership-performance relations; however, scholars have not yet reached agreement on this topic (Fazlzadeh, Hendi & Mahboubi, 2011:250). The ownership-performance relationship became an issue of interest with the increase of professionalism management (Talebnia et al., 2010:265; Fazlzadeh et al., 2011:250). The authors note that professionalised management is characterised by reduced enterprise efficiency. Researchers have studied the structure of ownership from different perspectives, namely, the private or public perspective, foreign or domestic ownership perspective, and/or the rate of share equity percentage under individual authority, with all trying to relate ownership to enterprise behaviour or performance (Talebnia et al., 2010: 264; Fazlzadeh et al., 2011:251).

According to Lin (2010: 368), ownership plays a key role in creating the incentives necessary to make risky decisions including those associated with international expansion. Lin indicates, for example, that a manager may be hesitant to make the risky but necessary move since his/her compensation is dependent on the performance of the enterprise. Agency theory is used to explain the opposition between the shareholders and decision makers (managers) within the enterprise (Talebnia et al., 2010: 265; Fazlzadeh et al., 2011:250). Agency theory can be traced back to the separation of ownership and management, which results in agency problems as the manager's interests conflict with those of the shareholders/owners, as well as conflict arising between the controlling and minority shareholders. Lin (2010:369) also notes that agency theory is not the only premise that provides an explanation of the relationship between ownership and performance. The said author notes that transaction cost analysis also explains the relationship between ownership and enterprise performance. According to transaction cost analysis, ownership ensures control (Fillis, 2004: 58). Control will ensure that the monitoring of an enterprise performance is ensured, and hence a high likelihood of better performance. However, it is noteworthy that transaction cost analysis and agency theory are intertwined since both reveal the importance of control to enterprise performance.

They indicate that the higher the control that the owner has on the enterprise the better the performance. Thus, even if there is separation between ownership and control, there has to be a means to exercise control over management. It is therefore assumed that the agency problem could be minimised even when there is separation of ownership and control, if ownership is concentrated and not dispersed. When ownership is dispersed, a number of owners can shirk their monitoring role since the benefits and costs of ownership are shared by a number of owners (Chhibber & Majumdar, 1999:213). Fazlzadeh et al. (2011:251) argued that, legally, when ownership is dispersed, shareholders own an enterprise, yet they do not necessarily feel any sense of ownership or control over the enterprise as their stake is small. On the other hand, concentrated ownership provides incentives for large shareholders to monitor management. This strongly suggests that ownership is central to enterprise performance.

Lin (2010:376) furnishes additional insights that while ownership contributes to success, who owns the enterprise also matters. The said author determined that privately owned MNEs performed better than state owned MNEs. Also, a comparison between foreign and domestic ownership has attracted attention. According to Chhibber and Mjumdar (1999:210), there is an obvious hypothesis held in foreign investment literature that suggests that enterprises in which there is a higher share of foreign ownership, on average, will perform better than their domestic counterparts. According to the said authors, however, empirical findings have produced mixed results. Some research findings according to the authors have shown direct positive effects, others are either equivocal or did not find any positive performance effects associated with foreign ownership. It is generally agreed that ownership matters and contributes to improved performance; however, there is no agreement on whether the kind of ownership structure really matters. Therefore it is hypothesised that:

H_{8o}: The perceptions of managers in Lesotho based manufacturing enterprises towards export barriers do not vary according to enterprise ownership structure.

H_{8a}: The perceptions of managers in Lesotho based manufacturing enterprises towards export barriers vary according to enterprise ownership structure.

1.5. RESEARCH DESIGN

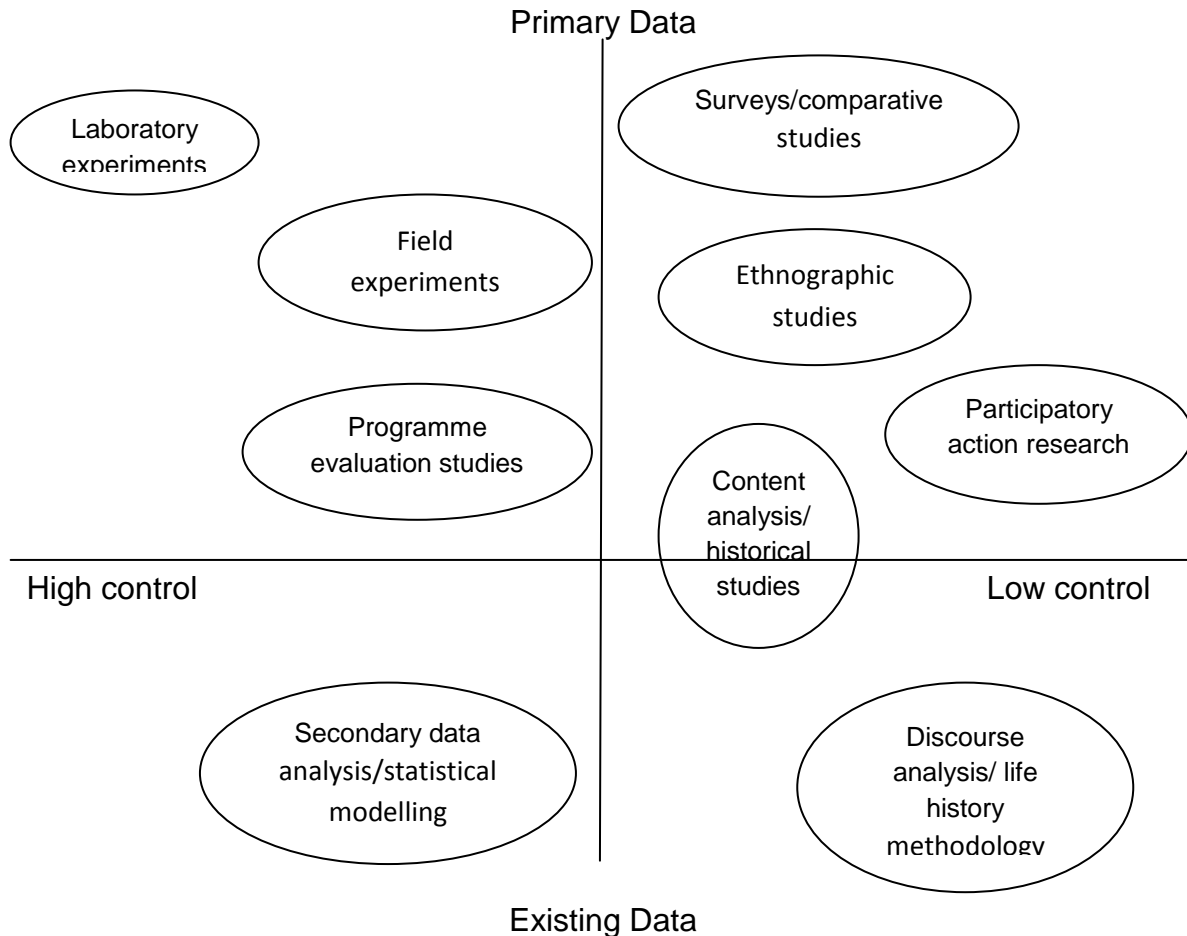
Cooper and Schindler (2003:146) define research design as the strategy for a study and the plan by which the strategy is to be carried out. The strategy is the technique of finding answers to a problem. The plan details all the steps to be taken towards obtaining answers from identifying the problem to data analysis. According to Babbie and Mouton (2001:72), research design is a plan of scientific inquiry, which entails two aspects, namely, specifying clearly what one wants to find out and determining the best way to do so. They explain that scientific inquiry comes down to making observations and interpreting what is observed. Some of the major descriptors of research design followed in this study are:

1.5.1 The degree to which the research question has been crystallised

According to Cooper and Schindler (2003:146), a study can be classified as being exploratory or formal. They note that the two forms of study differ by the degree of structure and their immediate objectives. Exploratory studies possess loose structures and aim to develop hypotheses or research questions for further research. The formal study commences where the exploration leaves off — it begins with a hypothesis or research question with the aim of testing the hypothesis or it seeks to answer the research question posed (Cooper & Schindler, 2003:146). Babbie and Mouton (2001:77-78), on the other hand, map specific research designs on the basis of data used in such a study and the degree of control inherent in the design and come up with 9 types of design as illustrated in figure 1.5.

This study, based on the work of Cooper and Schindler (2003:146), is formal as its primary research objective and hypotheses have been stated after a thorough literature review. The study thus aimed to test the stated hypotheses. The study is further classified as a survey study as it used primary data collected by means of a survey.

Figure 1.5: Types of empirical research designs



Source: Babbie and Mouton (2001:79)

1.5.2 The method of collecting data

Research designs can also be differentiated by the manner in which data is gathered from subjects. Data can be collected through monitoring or an interrogation process (Cooper & Schindler, 2003:147-148). In monitoring, the researcher inspects the activities of subjects or the nature of certain material

without attempting to elicit responses from anyone. The interrogation processes involve questioning subjects in order to obtain data. Researchers can use either personal or impersonal means such as interviews or telephone conversations, self-administered or self-report instruments sent through the mail, left in convenient locations, or transmitted electronically or by other means, or instruments presented before and/or after a treatment or stimulus conditions in an experiment. According to Gay and Airasian (2000:418, 190), three main methods are employed to collect data for research studies; that is, administer an instrument (existing or own construction) on a selected sample, collect already existing data, or record naturally occurring events.

This study constituted an interrogation study, as information was gathered by questioning the key informants in Lesotho based manufacturing enterprises where participants were asked to complete the questionnaire at their own convenience, and which were subsequently collected when ready. An instrument that was developed for this study was administered to selected key informants in Lesotho based manufacturing enterprises.

1.5.3 The power of the researcher to produce effects on the variables

The distinction here is made between experimental and ex post facto designs. The two designs differ in terms of the researcher's ability to manipulate variables. In experimental design, the researcher attempts to control and/or manipulate the variables in the study in order to discover whether certain variables have an effect on other variables. With an ex post facto design, the researcher has no control over variables and as such cannot manipulate them. The researcher, therefore, only reports what has happened or what is happening (Cooper & Schindler, 2003:149). Babbie and Mouton, (2001:77), while they do not group different types, are in agreement that different types of designs involve different forms of control where designs such as experiments (see figure 1.5) impose high

control on their subjects/respondents compared with other designs such as surveys.

The study is ex post facto and specifically a survey study, as the researcher had no control over any variables in the study and merely reported on what was currently happening.

1.5.4 The purpose of the study

Research studies differ by what they aim to achieve. Studies that describe the situation or event are descriptive studies. If the study indicates causality between variables, it is a causal study (Babbie & Mouton, 2001:80; Cooper & Schindler, 2003:149).

This study is descriptive, as the research's findings only reflect the export barriers that constrain the exporting from Lesotho based manufacturing enterprises and no attempt was made to establish the causal relationship between variables.

1.5.5 The time dimension

The researcher has to decide on whether the observations will be made at one point in time or over a period of time. A study designed to cover a snapshot of particular period is cross-sectional while longitudinal studies permit observations over an extended period (Babbie & Mouton, 2001:92-93; Cooper & Schindler, 2003:149).

This study is cross-sectional, as it reflects the export constraints from Lesotho based manufacturing enterprises at the time the study was carried out.

1.5.6 The research environment

Research designs also differ in terms of the environmental conditions under which they are carried out. Studies can be carried out under actual conditions (field study setting), manipulated conditions (laboratory conditions), and replicated environments (simulations) (Cooper & Schindler, 2003:150). For instance, Gay and Airasian (2000:418, 316) note that in conducting an experiment, two kinds of variables need to be controlled, namely, participant variables on which participants in the different groups might differ, and environmental variables, which might cause unwanted differences between groups. In a causal-comparative research design, however, there is no manipulation and control of variables.

The study was carried out under conditions of the actual environment as the researcher did not manipulate or stage environmental conditions.

1.6. THESIS LAYOUT

- **Chapter one- Introduction and problem statement**

Chapter one covers the justification of the study; the statement of the problem and the objectives of the study. The chapter further outlines the thesis structure.

- **Chapter two- Globalisation of the business environment**

Chapter two illustrates the factors that drive globalisation as well as the challenges that globalisation pose to enterprises that expand to markets outside their home location.

- **Chapter three- Internationalisation of enterprises**

Chapter three discusses theories of internationalisation and how the theories predict the selection of the foreign entry mode and indicate the most common foreign entry modes employed by enterprises. Further empirical evidence of

internationalisation behaviour of enterprises was used to illustrate the limitations of internationalisation theories in predicting the selection of the entry mode.

- **Chapter four- Exporting**

Chapter four focuses on the factors that influence the exporting decision-making process. The chapter discusses factors that motivate exporting as well as those factors that constrain the exporting activity. The factors that constrain exporting determined from literature were then used as barrier items in the questionnaire used to collect data in this study.

- **Chapter five- Research methodology**

Chapter five discusses the methodology adopted in the study. The chapter covers the research design, sampling design and data collection. It also discusses instrument design and reports the response rate attained in the study as well as how the instrument's reliability and validity were measured. Lastly, the chapter discusses the data analysis techniques adopted in the study.

- **Chapter six- Empirical analysis and interpretation of results**

Chapter six discusses and interpret the findings and indicates the hypotheses that could not be accepted and those that cannot be rejected.

- **Chapter seven- Conclusion and recommendations**

Chapter seven details observations and remarks on exporting constraints on the basis of the findings in the study. Further, the chapter puts forth the proposals that can be adopted by policy makers in order to minimise the constraints faced by enterprises. Areas of further research are also pinpointed.

1.7. ABBREVIATIONS

AGOA	African Growth Opportunity Act
ANOVA	Analysis of Variance
ATC	Agreement on Textiles and Clothing

BA	British Airways
BEDCO	Basotho Enterprise Development Corporation
CBL	Central Bank of Lesotho
EKC	Environmental Kuznets Curve
ESA	Enterprise-specific Advantages
EU	European Union
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
GSP	Generalised System of Preference
HS	Harmonised System
ICT	Information and communication technologies
IFC	International Finance Corporation
INV	International New Ventures
LDC	Lesser Developed Countries
LNDC	Lesotho National Development Corporation
MFA	Multi-fibre Agreement
MIGA	Multilateral Investment Guarantee Agency
MITM	Ministry of Industry, Trade and Marketing
MNEs	Multinational Enterprises
MTICM	Ministry of Trade and Industry, Cooperatives and Marketing
NAFTA	North American Free Trade Association
ODI	Overseas Development Institute
OECD	Organization for Economic Cooperation and Development
PPP	Purchasing Power Parity
SACU	Southern African Customs Union
SADC	Southern African Development Community

SAS	Statistical Analysis Software
SIC	Standard Industrial Classification
SITC	Standard International Trade Classification
SMEs	Small and Medium Enterprises
SMMEs	Small, Micro and Medium Enterprises
SSA	Sub-Saharan Africa
UNCTAD	United Nations Conference on Trade and Development
USA	United States of America
WOS	Wholly Owned Subsidiary
WTO	World Trade Organisation

CHAPTER 2

GLOBALISATION OF BUSINESS ENVIRONMENT

2.1 INTRODUCTION

According to Mrak (2000:3) and Loots (2001:3), globalisation lacks a universally accepted definition. The authors define globalisation as a process where national markets are becoming increasingly interlinked, where interdependence of production is intensified and where mechanisms deciding the allocation of goods and services are increasingly operating at a global level.

As stated above, other authors offer different definitions. For instance, Nayyar (2001:1) defines globalisation as a process of deepening economic integration, increasing economic openness and growing interdependence between countries in the world economy.

According to de la Dehesa (2006:1), globalisation is the process of liberalisation, openness and international integration across a wide range of markets, from labour to goods and services to capital and technology.

Hartungi (2006:729) describes the globalisation process as the breakdown of borders between countries, governments, economies, communities as well as the liberalisation and openness of markets.

Allen and Raynor (2004:17), on the other hand, indicate that while definitions of globalisation differ they still have something in common, for instance most definitions suggest that globalisation is a process of increasing economic openness and interdependence between the countries of the world meaning that Allen and Raynor's (2004:17) view that different definitions of globalisation share a core idea seems to hold.

2.2. EVOLUTION OF GLOBALISATION

Globalisation is not a new phenomenon; it came and went and re-surfaced again (Nayyar, 1998:9; Mutschler, 2000:31; Bertelsmann-Scott, 2000:47; Moore, 2003:24; de la Dehesa, 2006:1; Muhammad et al., 2010:67). Moore (2003:25), while in agreement that globalisation is not new, argues that globalisation is now more accelerated than previously and people are now able to observe and judge changes as they take place.

De la Dehesa (2006:1) and Nayyar (2001:2) identify two phases of globalisation. According to them, the first phase covers the period 1870 to 1914 and the second phase resumed after the Second World War in 1950, continuing to the present. Distler (n.d.:18-19) also identifies two phases of globalisation, namely, the period leading to the First World War, which erupted in 1914. Distler (n.d.:18-19) regard this period as the beginning of globalisation because world trade and international capital flows were increasing rapidly and normally such increases signalled globalisation. The said author further notes that an unprecedented expansion occurred following the end of the Second World War, that is, from 1950. Bertelsmann-Scott (2000:47), in contrast, regards the origins of globalisation as the period following the end of the Second World War to date, suggesting that the author recognises only one phase of globalisation. The author seems to ignore the earlier phase that was interrupted by the World Wars. O'Rourke and Williamson (2002: 23-24), on the other hand, note two opposing historical perceptions of the evolution of globalisation. According to O'Rourke and Williamson (2002: 23-24), on the one hand there are some historians that regard globalisation as having started in the 1400s when Columbus landed in America in 1492 in search of spices and Vasco da Gama sailed around Africa in 1498. On the other hand, they maintain that other historians are sceptical about regarding such long-distance trade as the start of globalisation, that is, they disregard such activities as being significant enough to warrant the start of globalisation.

Generally there seems to be an agreement that globalisation was a defining term of the 1990s, following the Second World War, at the time when industrialisation was taking hold in several countries, which consequently accelerated trade between countries (O'Rourke & Williamson, 2002:23; Loots, 2001:3; Brown & Stern, 2004:2; Lévy, 2007:594).

2.3. THE KEY DRIVERS OF THE GLOBALISATION PROCESS

The globalisation of the business environment is driven by a combination of factors, which are categorised into market factors, competitive factors, cost factors, political factors and technological factors (Segal-Horn, 2002:9-10; Johansson, 2006:17; Czinkota & Ronkainen, 2007:190; Doole & Lowe, 2008:191; Barnes, 2008:50).

2.3.1. Market factors

Markets of the world are integrating because of the increasing similarity among them caused by the changes in their environment. Firstly, technological progress and global communication systems have made international travel and communication easier for consumers (Johansson, 2006:17; Barnes, 2008:54). More open borders and cheaper travel costs have contributed to the increasing number of migrants seeking work and improved economic circumstances outside their own countries (Barnes, 2008:54). Unrestricted international travel and communication exposes consumers to similar messages and products, which influence similarity in consumer demand (Levitt, 1983:92; Segal-Horn, 2002:9; Johansson, 2006:17; Czinkota & Ronkainen, 2007:190; Barnes, 2008:54). Some customers are global, that is, they function in more than one country, and as such are already aware of certain product offerings from having used them in another setting and would continue to demand the same (Van Dierdonck, 2003:434; Johansson, 2006:17-18; Ball et al., 2006:12).

As consumer demands become undifferentiated the world is turned into what is termed a “global village” in which its population shares commonly recognised cultural symbols (Segal-Horn, 2002:9). One of the most influential discussions of this trend is by Levitt (1983) (Segal-Horn, 2002:9; Czinkota & Ronkainen, 2007:189). According to Levitt (1983:92), accustomed differences in national and regional preferences are diminishing, to be replaced by global markets where the entire world or major regions have become a single entity. Bird and Stevens (2003:398-399) note that more than before people speak and communicate in a common language, have in common what they drink, eat, drive and watch for entertainment, which unifies the world and brings about a commonly accepted global culture. The consequence of the diminishing differences in the world markets is that similar goods and services can be sold to the whole world using the same marketing ideas (Levitt, 1983:93; Segal-Horn, 2002:9; Johansson, 2006:17-18; Czinkota & Ronkainen, 2007:190). Doole and Lowe (2008:195), while in agreement with the globalisation of customer requirements, are of the opinion that instead of the global village the globalisation of customer requirements will display in worldwide segments. That is, irrespective of the country of origin there will be consumers who will consume the same products and services forming a segment that can be treated as such. Another viewpoint, however, suggests that world markets cannot be entirely global as there are some customer needs that will tend to resist the shift to globalisation and will remain multidomestic with different customer preferences and differentiated products across countries (Stonehouse et al., 2000:30; Johansson, 2006:17).

2.3.2. Competitive factors

More and more enterprises continue to enter the global markets in order to take advantage of global economies of scale and scope, which makes it difficult for enterprises that are not globalised to continue to compete effectively. That is why the globalisation of one enterprise in the industry works as an incentive for others to follow suit (Segal-Horn, 2002:10; Johansson, 2006:18; Czinkota & Ronkainen,

2007:192; Doole & Lowe, 2008:195). According to Czinkota and Ronkainen (2007:192), to remain competitive an enterprise has to be the first to do something, failing which it must be able to match or pre-empt competitors. Hence, Johansson (2006:18) notes that the presence of foreign competitors in an enterprise's domestic market increases the need for the enterprise to venture abroad even if only to counterattack the foreign competitor in foreign markets to ensure that the foreign competitor does not have an undue advantage in unchallenged markets. Therefore, it shows that competing enterprises are likely to replicate their competitive battles in other destinations (Doole & Lowe, 2008:195). Competition is intensifying because a competitive move by one enterprise incites a response from another and the cycle continues so enterprises have to continually look for new markets; hence the advent of globalisation (Dlabay & Scott, 2001:415; Ball et al., 2006:13).

2.3.3. Cost factors

Enterprises globalise in order to avoid cost inefficiencies and duplication of effort (Johansson, 2006:19; Czinkota & Ronkainen, 2007:190). According to Johansson (2006:19), global marketing eliminates duplication because an enterprise would be saved from having to redesign products for different markets, localise slogans and brand names as well as have multiple promotional campaigns in different markets. Levitt (1983:94) also notes that selling globally allows enterprises to offer standard products at a relatively lower cost to similar markets, which is difficult for multi-domestic enterprises to achieve as they have to produce multiple product lines and solicit multiple distribution channels in order to address regional differences. According to Segal-Horn (2002:9), in most industries the size of the enterprise determines the competitive levels of efficiency. For instance, if size is defined by the quantity of products produced per plant then the plant that produces more is likely to achieve cost efficiency (Czinkota & Ronkainen, 2007:190; Johansson, 2006:19). The single-country approach according to Czinkota and Ronkainen (2007:190) and Johansson

(2006:19) may not be sufficient to achieve a large production output per plant; hence globalisation becomes necessary to ensure a large market for the large quantity produced. The said authors further argue that for certain industries that require large plants to be efficient (e.g. automobiles) and those that absorb huge research and development budgets (e.g., pharmaceuticals, where it could take up to \$1billion to develop a drug), a single market may not be large enough to achieve economies of scale and scope as well as synergies. According to the aforementioned authors, only a global product for global markets can justify such huge investments. Economies of scale refers to the unit cost reductions made possible by a long series in a given plant, and to achieve this, one plant often needs to supply more than one market (Johansson, 2006:19). Economies of scope refers to gains resulting from spreading activities across multiple product lines or businesses.

2.3.4. Political factors

Globalisation is also driven by political development where countries open and liberalise their markets (Distler, n.d.: 17; Hoekman & Kosteck, 1995:3; World Bank and Oxford University Press, 2002:28; Khalid, Levy & Saleem, 1999:9; Brown & Stern, 2004:2). Trade liberalisation increases the international participation of enterprises because liberalisation reduces the challenges that enterprises can encounter when entering foreign markets. It is noted that protectionism increases world prices as countries continually retaliate against each other's protectionism policies, making it difficult to internationalise (Hoekman & Kosteck, 1995:3; Hoekman, Michalopoulos & Winters, 2004:482; World Bank and Oxford University Press, 2002:28). The governments of the world turned the idea of liberalisation into a formal agreement through an agreement on tariffs and trade (GATT) in 1947 that was enforced in January 1948 (Khalid, Levy & Saleem, 1999:9; Brown & Stern, 2004:6). GATT influenced a turn towards world economic integration, which resulted in the rise of world output being traded internationally (Brown & Stern, 2004:6; World Bank and

Oxford University Press, 2002:28). GATT, however, was not a legal entity but an inter-governmental treaty. To strengthen respect for the GATT rules, countries agreed to create the World Trade Organization (WTO) in 1995 (Brown & Stern, 2004:7; Czinkota & Ronkainen, 2007:33; Doole & Lowe, 2008:16; Barnes, 2008:53; Ball et al., 2010:105). The World Trade Organisation was designed to help implement the rules of trade between nations that are agreed upon through brokering deals with governments to deregulate trade between them. Deregulation means the removal of historic barriers, both tariffs and non-tariffs which constituted barriers to trade at national, regional and international levels (Segal-Horn, 2002:9; Czinkota & Ronkainen, 2007:510). Lange (2004:69) argues that countries that trade with one another avoid or at least reduce the risk of armed conflicts. According to Lange, as countries enter into different trade corporations and unions they become more united ensuring long-term peace as such corporations are difficult to reverse. A number of such corporations and unions have been formed. Besides the WTO there are a number of regional integrations, for instance, the European Union (EU), the North American Free Trade Association (NAFTA), and the Southern African Development Community (SADC) to mention a few. Global international organisations such as the WTO as well as numerous regional unions ease the deepening of economic integration.

2.3.5. Technological improvements in transport and communication

Technology is one of the fundamental conditions on which the emergence of a global economic integration depends (Hemmer, 2000:3; Stonehouse et al., 2000:33; Segal-Horn, 2002:9; Johansson, 2006:19; Czinkota & Ronkainen, 2007:191). The Internet and its associated information and communications technologies (ICTs) constitute a significant technological advancement (Segal-Horn, 2002:9; Barnes, 2008:50). The inherently global nature of the ICTs, that is, having no geographic boundaries, renders global expansion for enterprises both possible and desirable (Segal-Horn, 2002:9; Johansson, 2006:20). The World Wide Web and its home pages can be accessed from anywhere by anyone,

which has enhanced the potential for global participation of enterprises. Firstly, enterprises need not be physically located in a particular location to access customers as they can operate their business online (Johansson, 2006:20; Czinkota & Ronkainen, 2007:191; Barnes, 2008:51-52). Furthermore, ICTs have made it possible for multinational employees to work effectively irrespective of where they are because of new communication methods such as teleconferencing, emails etcetera. (Johansson, 2006:20; Czinkota & Ronkainen, 2007:191; Barnes, 2008:50). Additionally, improvements in technology have affected the speed and cost of accessing customers and transporting goods and services (de la Dehesa, 2006:3; Johansson, 2006:20; Barnes, 2008:52). The said researchers note that customers can be accessed through the Internet at a fraction of the cost of traditional means. They also note that improvements in transport infrastructure on both land and sea and in transportation systems (particularly the near universal adoption of containers) have led to dramatic reductions in the total time taken to transport goods. Lastly, technological changes in shipping and refrigeration have changed the status of goods that had formerly been classified as non-tradable internationally such as fruit and flowers. Refrigeration has extended the shelf life of these products rendering them global prospects (Segal-Horn, 2002:11; de la Dehesa, 2006:3). In general the impact of ICTs is viewed as the reduction of the natural barriers imposed on human mobility by space and time (de la Dehesa, 2006:3; Hemmer, 2000:3). According to Barnes (2008:52), the world can truly be said to have shrunk as a result of technological improvements.

2.4. IMPACT OF GLOBALISATION

The focus of researchers has been attracted towards establishing the impact of globalisation on nations as well as on individuals. There are two extreme positions on the issue of the effects of globalisation. Some regard globalisation as a tool to promote growth and to reduce poverty while there is also a notion that globalisation will cause more poverty and inequality (Watkins, 2002:24; Berg

& Krueger, 2002:16). In fact, Dreher (2006:1091) indicates that non-economists are the ones who hold negative views associating globalisation with the erosion of social and environmental standards, high poverty rates and frequent financial crises, while economists believe in the positive net effect of globalisation. However, Dreher (2006:1091) indicates that empirical studies support the positive effect of globalisation.

2.4.1. Impact on growth

It is generally agreed that globalisation exerts positive effects on growth (Berg & Krueger; 2002:17; Lévy, 2007:597). According to Lévy (2007:597), China's economy has grown by approximately 9 percent per year since the 1980s after its economic transformation. Among others, the openness of China attracted an FDI estimated at 8.2 percent of the world's FDI in 2003, which translated into an increase of China's share of world exports to 5.8 percent, and imports to 5.3 percent, compared with the share of world exports of only 1.9 percent and imports of 1.6 percent achieved in 1990. According to Berg and Krueger (2002:17), at an enterprise and industry level, globalisation promotes growth because enterprises can acquire knowledge from operating in foreign markets, which will translate into improved enterprise productivity and growth.

Baldwin and Gu's (2004: 389) study confirms that globalisation contributes to growth. The study investigated the effects of trade liberalisation where manufacturing tariffs were gradually eliminated between Canada and the United States and the signing of the North American Free Trade Agreement that brought Canada, Mexico and the United states together. The results showed that as trade barriers facing Canadian manufacturers fell, more manufacturers entered the export market and exporters increased their export intensity. The participation of enterprises in export markets thus improved labour productivity in Canadian plants.

Three mechanisms that raised the productivity of Canadian enterprises according to Baldwin and Gu's (2004: 389) constitute the increase in plant specialisation, learning by exporting, and exposure to international competition. The study revealed that the plants of the Canadian enterprises had short production runs because they suffered excessive levels of diversity and as such could not exploit economies of large-scale production. However, when enterprises began to export they lengthened their production runs because they increased their product specialisation. Secondly, exporting improved productivity by giving enterprises learning opportunities as enterprises were exposed to foreign technologies and processes. The study determined that the usage of foreign technology became higher for enterprises that exported, and those who did not remain behind. The study further established that the usage of foreign technology was the same between exporters and non-exporters prior to export market participation. Lastly, intense competition was found to be another factor that encouraged efficiency among exporters. The study established that Canadian enterprises faced much more competition in their foreign markets and had to find ways to match their competitors.

Unlike Berg and Krueger (2002:17) that link global participation to innovation, Baldwin and Gu (2004:387) found no relation between globalisation and innovation in enterprises. According to Baldwin and Gu (2004:387), exporters exhibited more innovative skills than non-exporters even before they entered the export market. Sutherland (2002:20) concurs that the local presence of internationally active enterprises exerted pressure on enterprises inclusive of those that are focused purely on domestic markets to raise standards enabling them to subsequently participate in globalisation effectively. In other words, enterprises do not become innovative when exporting but they improve their efficiency while still operating within their domestic sphere and when they have achieved efficiency and are innovative they are able to operate in international markets.

The different studies discussed above analysed the impact of globalisation that resulted from trade liberalisation. Dreher (2006:1092) notes that it is possible that the effects reported are for the individual dimension, that is, trade liberalisation might be apparent just because other important aspects of globalisation have been omitted from the equation. Dreher (2006:1097) examined the overall effects of several dimensions of globalisation on growth and the overall globalisation effects were still positively related to growth. Firstly, Dreher (2006:1092) developed an index of globalisation using panel data of 123 countries from 1970 to 2000 covering three aspects of globalisation, namely, economic integration, social integration and political integration. Using the overall index, countries were ranked based on data for the year 2000. According to the index, the USA was the most globalised with a score of 6.48 (Dreher, 2006:1095). Countries were then subsequently split into two groups according to their overall index score. The mean of 2.45 of the index was used to draw the line between more and less globalised countries. Per capita GDP growth differed between the two groups. More globalised countries, that is, those scoring above the mean had a faster per capita GDP growth than the less globalised countries Dreher (2006:1097). These results support the fact that globalisation influences growth.

2.4.2. Impact on poverty

While it is generally agreed that globalisation has positive effects on growth there have been growing concerns on its ill effects, especially concerns relating to whether the world's poor are sharing in the benefits of greater integration among economies or whether they are becoming poorer (Agénor, 2004:24; Berg & Krueger, 2002:16).

One of the fears of developed economies pinpointed in Berg and Krueger (2002:16) and de la Dehesa (2006:180) is that globalisation drives down wages and exports jobs to low-wage economies. The authors indicate that globalisation sets workers around the world in competition with each other to see who will

accept the lowest wages and benefits. This means that jobs will go to the locations that accept the lowest wages and benefits which in most cases will be developing countries. Sutherland (2002:20) agrees that globalisation is viewed sceptically with regard to poverty reduction by anti-globalisation campaigners who view multinational enterprises as exploiters of workers and tax evaders that always bargain for lowest wages and taxes. According to Sutherland (2002:20), however, evidence points to the contrary as in general real wages have risen in countries that have attracted FDIs and that corporate tax revenues in such countries have been rising, not falling. Liard-Muriente (2005:31), on the other hand, argues that globalisation will drive down wages in developed economies even if jobs are not exported to low-wage economies as the credible threat to move elsewhere is sufficient to impact negatively on the bargaining power of workers. According to De la Dehesa (2006:180), it is the lower-skilled workers in developed countries that are more likely to be net losers of globalisation as they would find it difficult to adapt to new technologies and hence would be forced to accept lower wage jobs, especially if their labour markets are flexible, that is, where labour markets allow the entry of workers with ease from anywhere in the world. De la Dehesa (2006:180) suggests that skilled workers in developed countries would not be impacted negatively by globalisation because they can easily adapt to new technologies, which means that they would not be forced to accept lower wages. However, the authors agree that as globalisation drives down wages, through different forms as indicated, it will lower the standard of living and/or increase poverty.

De la Dehesa (2006:179) agrees that migration flows from developing to developed countries are increasing. Instead of considering it a problem, the author opines that migration would increase the human capital of developing countries and their incomes as migrants normally transfer some funds back to their families, increasing their purchasing power and consumption in their countries of origin. This means that migration would be a powerful tool through which global income inequality could be reduced by lowering unemployment and

increasing financial inflows to developing countries through remittances. According to de la Dehesa (2006:181-182), this therefore means that fears that globalisation will lower standards of living and create and/or increase poverty are unsupported. Berg and Krueger (2002:16,18) also consider the concerns of both developing and developed countries unjustified as in this era of globalisation, statistics indicate a decline in the number of extremely poor people in the world, from 38 percent in 1978 to 19 percent in 1998; the decline is credited to growth and not changes in income distribution. Then again, as trade liberalisation tends to reduce monopoly and the value of connections to bureaucratic and political power the expectation is that the relative wages of low-skilled workers will increase if trade liberalisation has not worsened the income distribution.

According to Watkins (2002:24-25) it is unjust to accept the assertion that globalisation can never benefit the poor but at the same time a statement that holds that globalisation is almost an automatic passport to more rapid growth and poverty reduction also does not hold true. This is noted in recognition of the fact that between 1988 and 1998, the era of globalisation, global poverty fell by a ridiculously low rate of 0.2 percent per year and as such the claims that openness is associated with growth and that increased trade is not associated with increased inequality are denied. Further, Watkins (2002:25) obtained results that are inconclusive with regard to the relations between trade liberalisation, growth and poverty reduction. For instance, the author established that China, Thailand and Vietnam have liberalised imports gradually and still have relatively restrictive trade barriers yet they have a strong record of economic growth and poverty reduction. On the other hand, countries such as Brazil, Haiti, Mexico, Peru and Zambia are the most liberal in the world when it comes to imports but they have a weak record of growth and poverty reduction.

The results in the study conducted by Agénor (2004:41) support the two opposing scenarios of globalisation, that is, the assertion that globalisation increases poverty and the claim that it reduces poverty. According to Agénor

(2004:41), at low levels of globalisation, poverty increases, while at higher levels of globalisation poverty decreases. In other words, the findings of empirical research indicated that globalisation correlated with increased poverty in economies that are experiencing low globalisation while economies that are highly globalised would show lower poverty levels.

According to Berg and Krueger (2002:19), for globalisation to benefit the poor, trade liberalisation should be complemented by other sorts of reforms. Watkins (2002:26) agrees that globalisation can benefit the poor when other areas such as land redistribution and investment in marketing, improved access to education and health care and measures to tackle corruption, protection of infant industries, the restoration of basic labour rights and minimum-wage protection are dealt with in conjunction with trade liberalisation.

While developed countries are anxious about exporting jobs to developing countries, developing countries, according to Berg and Krueger (2002:16) and the World Bank (2006:28-29, 58) are anxious about a brain drain of their most skilled workers that may be attracted to developed economies. According to the authors, the migration of skilled workers from developing to developed economies will also lower standard of living and create and/or increase poverty. The authors acknowledge that the migration of highly skilled workers is same as the migration of low skilled workers enables migrants to escape poverty and reduce poverty in their country of origin through remittances, increased wages and a reduction of unemployment and under-employment. However, the authors argue that the migration of highly skilled workers may reduce the living standards of those left behind and impair growth in their country of origin because:

- Other workers lose the opportunity for training and mutually beneficial exchange of ideas.
- Opportunities to achieve economies of scale in skill- intensive activities may be reduced.
- Society loses its return on highly skilled workers trained at public expense.

- The price of technical services (where the potential for substitution with low skilled workers is limited) may rise.

In addition, the contribution that highly skilled workers could contribute to their countries in terms of the improvement of governance, quality of debates on public issues, encouragement of education of children and strengthening the administrative capacity of the state, will be reduced.

It can be concluded that while highly skilled migrants and their families would benefit from the increased wages and remittances, they can relieve labour market pressures and improve access to capital, technology, information, foreign exchange, and furthermore, they can be business contacts for enterprises in their country of origin, it is not apparent whether the costs of their migration can be sufficiently compensated for by these benefits (World Bank, 2006:58). However, the World Bank (2006:68) noted that the high rate of high skilled emigration affects only a small part of a developing country's population. Data for 2004 show that the 77 countries with highly skilled emigration rates to developed countries in excess of 10 percent account for only one-quarter of a developing country's population and moreover, these people live in countries with poor investment climates, which may indicate that many highly skilled workers face limited opportunities to practice their professions. The World Bank (2006:68) suggests that the migration of highly skilled workers does not always translate into a loss for their countries of origin as such countries in most cases fail to use them effectively owing to limited opportunities. Wright et al. (2008:142-143) in their study provide evidence that migration of highly skilled workers from developing countries is of benefit to their countries in the long run as when the migrants return to their home they bring entrepreneurial expertise to start up successful enterprises. The authors determined that scientists and engineers that migrated from China to the United States and other OECD countries when they returned they established enterprises. The returnee entrepreneurs as the authors called them are able to start new enterprises because they had acquired educational

experience abroad or had worked for an MNC and some even broad patents with them from abroad.

2.4.3. Impact on environment

According to Gillespie and Leflaive (2007:38) and Prasad and Asafu-Adjaye (2003:1290-1291), there is no dispute over the fact that increased economic development can leave dreadful footprints, such as unpredictable weather patterns, an increased use of natural resources, rampant urbanisation and demographic explosions, to mention a few; however, they note that if appropriate innovative mechanisms are adopted the ill effects of globalisation can be reduced or avoided. The link between globalisation and the environment, however, remains an empirical issue and in some cases a controversial one (Prasad & Asafu-Adjaye, 2003:1290; Vincent, 1997:417; Chimeli, 2007:89). According to them, this is so firstly, because there are no theories that offer explicit mechanisms that show the link between globalisation and environmental change, whether positive or negative.

Secondly, even at the point when the model showing a link between economic development and the environment, widely known as the environmental Kuznet curve (EKC) was developed, the empirical studies that tested the model produced mixed results. For instance, the testing for EKCs in a longitudinal study, covering the late 1970s to the early 1990s in Malaysia failed to prove the existence of an EKC (Vincent, 1997:420-430). Vincent (1997:420-430) compared the Malaysian pollution trends with corresponding predictions from the cross-sectional studies. According to estimated relationships from previous cross-sectional studies of air pollution and income, the turning points were set at approximately US\$9,400 per capita income for air pollution emissions and US\$3,280 for ambient air quality measured in purchasing power parity (PPP) at the 1985 international price levels. Malaysia's per capita GDP in PPP terms was estimated at US\$4,727 in 1988. The Malaysian PPP is far below the turning point

for air pollution emissions and the expectation was that air pollution emissions would be increasing during this period; however, to the contrary they fell sharply. In addition, the expectation was that ambient air quality would be improving, that is, the curve should have turned; however, it was still rising at that level of income above the estimated turning point. In the same study, the relationship between water pollution and income was also not consistent with the predictions of the cross-sectional study. Prasad and Asafu-Adjaye (2003:1292) also do not agree with the inverted U-shaped relationship of income and indicators of environmental degradation, especially in the developing countries. Prasad and Asafu-Adjaye (2003:1292) conceptualised a negative effect of trade liberalisation on the environment of developing countries (with specific reference to The South Pacific Forum Island countries) especially in the agriculture sector, in the short and medium term before a move into urban manufacturing. Vincent (1997:424), however, detected negative effects of globalisation on the environment regardless of whether the expansion was experienced in the agricultural sector or whether there was a shift into manufacturing.

According to Prasad and Asafu-Adjaye (2003:1292), developing countries have a comparative advantage on agricultural products, and with liberalisation they tend to engage in crop specialisation targeted to the needs of the international markets unlike developed countries that practise crop generalisation, which is environmentally friendly. The approach of developing countries to the liberalisation of the agricultural sector leads to various environmental degradations for example, extensive deforestation and loss of indigenous plants and animals.

While Bandara and Coxhead (1999:363) agree that openness of markets will increase the production of a specific agricultural product in which a developing country has a comparative advantage, that is, tea in the case of Sri Lanka, the authors disagree with Prasad and Asafu-Adjaye (2003) that it will increase environmental degradation. According to Bandara and Coxhead (1999:363), the

simulation results indicate that tea production increases due to trade liberalisation will be combined with reduced land degradation. They maintain that the production of perennial crops (e.g., tea) will subject the land to less tillage than annual crops. If the upland farming in Sri Lanka is dedicated to tea production both on-site (erosion of land nutrients) and off-site (diminishing water quality and accelerated sedimentation of dams and canals) erosion will be reduced because the erosion rate in upland tea is lower than that in other short season crops. Hence, the extent to which openness can be harmful to the environment depends on the type of agricultural product and the land structure. In certain situations openness will increase land degradation, while in other cases openness will affect the environment positively.

According to Stern and Common (2001:175) the lack of empirical support in some studies does not disprove the existence of an EKC but provides an indication that there is no global EKC model. In fact, Vincent (1997:430) argues that it would be wrong for policymakers to assume that at a certain level of globalisation environmental ills created at the beginning of globalisation will reverse automatically. Chimeli (2007:95), on the other hand, blames the contradicting results of an EKC on the parameters used in building the models.

It is noted that the developed countries seem to have acquired the means by which to address the impurities they emit while developing countries have not yet taken obligatory measures to reduce theirs (Gillespie & Leflaive, 2007:38; Prasad & Asafu-Adjaye, 2003:1299). The advice offered is that macro-economic reforms need to be adopted along with complementary policies in environments in order to reduce or avert environmental problems that accompany liberalisation, especially by the developing countries that are still failing in this regard. It is observed, however, that environmental pressures are mounting in developing countries as citizens in these countries are being exposed and are more aware of the environmental costs associated with growing the economy and deferring the

mechanism for sorting out the effects of growth (Bandara & Coxhead, 1999:35; Gillespie & Leflaive, 2007:38).

The inverted U-shaped relationship known as the environmental Kuznets curve (EKC) is based on the premise that at the early stages of economic growth the environmental effects are low, but increase with increased economic development. At higher levels of economic development, various factors such as structural changes and improved technology reverse the ill effects of globalisation (Stern & Common, 2001:162; Prasad & Asafu-Adjaye, 2003:1290).

Thirdly, the methodologies used to determine the link between economic development and the environment were questionable. For instance, Vincent (1997:417) indicates that some studies tend to analyse cross-sectional or panel data for a sample of developing and developed countries. They note that the short length of historical data on pollution do not extend back to the period when today's developed countries were still developing. This meant that all the low-income observations stem from developing countries while the high-income observations stem from developed countries. This lack of overlap between the observations from developing and developed countries, according to Vincent, could produce an inverted U-shaped relationship which simply reflects the juxtaposition of a positive relationship between pollution and income in developing countries with a fundamentally different, negative one in developed countries, rather than a single relationship that applies to both categories of countries. This indicates that it is important to ensure that in using an EKC a choice of the sample and parameters included in the model are examined carefully.

2.5. THE ROLE OF THE KEY ACTORS IN THE GLOBALISATION PROCESS

Lévy (2007:596) identifies the main actors in the globalisation process as national governments, multinational enterprises, international organisations and civil

society (mainly non-governmental organisations). Multinational enterprises, however, are regarded as key actors in the globalisation process (Rugman & Verbeke, 2004:3; Smith-Hillman & Omar, 2005:69; Zanfei, 2005:7; Muhammad et al., 2010:67). The same as for globalisation, attitudes towards multinational enterprises have been shifting from one state to the next (Segal-Horn, 2002:8; Zanfei, 2005:7). Segal-Horn (2002:8) maintains that multinational enterprises were viewed as threats to the survival of small enterprises around the 1970s. In the 1980s, multinational enterprises were regarded as dinosaurs on their last legs, a perception that later changed in the 1990s when they were viewed as geese laying golden eggs; however, in the early years of 2000 and onwards they became unpopular. Zanfei (2005:7), on the other hand, indicates that multinational enterprises are often viewed as either the ultimate carriers of progress and development opportunities, or as the extreme expression of predatory behaviour with no positive repercussions on the host economies.

The attitude towards multinationals depends on whether the host or home countries envisage harm or benefits from their operations (Castellani & Zanfei, 2003:556; Piscitello & Rabbiosi, 2005:36). The net effect of the entry of foreign enterprises into host economies is still unresolved (Dimelis, 2005:85). However, a number of studies pointed out that apart from capital formation, employment and trade associated with FDI projects, which are the direct effects of foreign investment in host countries, there is a likelihood of an additional still valuable indirect effect of new technology that local enterprises can access from FDI enterprises (Blomström & Kokko, 1998:2; Glass & Saggi, 2002:495; Ruane & Uğur, 2004:55; Dimelis, 2005:85; Barrios, Görg & Strobl, 2005:1762).

A number of empirical studies have set out to measure the indirect effects of a multinational presence in host countries; for example Görg and Strobl (2005), Aitken and Harrison (1999), Javorcik (2004), Ruane and Uğur (2004) and Blomström and Kokko (1998), to mention a few. The indirect effects or

externalities often referred to as spillovers are categorised into productivity and market access (Blomström & Kokko, 1998:2; Görg & Greenaway, 2004:172).

Zanfei (2005:10) defines positive spillovers as cost advantages created by multinationals through their activities that are not fully paid for by domestic enterprises in both the host and home countries. According to Blomström and Kokko (1998:11), positive spillovers are benefits accruing to local enterprises from multinational affiliates' superior knowledge of product/process technology or markets without incurring costs, which equals the improvement in knowledge of product/process technology or markets that a local enterprise would have acquired from the multinational affiliate. Therefore, we can define positive spillovers as intentional or unintentional diffusion of a multinational's know-how to local enterprises at a price lower than the worth of what has been transferred to the local enterprise.

There are three ways by which positive spillovers are generated and transmitted, namely, demonstration effects, competition effects and labour mobility effects (Blomström & Kokko, 1998:7; Dimelis, 2005:86; Görg & Strobl, 2005:694). Demonstration effects mean the productivity transfer from multinationals to local enterprises through imitation. Competition effects occur where local enterprises face competition from more productive multinationals and have to improve their own performance in order to compete successfully while labour mobility effects relates to technology transfer from multinationals to local enterprises when employees switch employers (i.e., move from multinational to local enterprises). Spillovers can be maximised when host countries have fostered functional links (such as supply chains) between local enterprises and foreign subsidiaries and when labour is mobile between local and foreign affiliates (Blomström & Kokko, 1998:2; Aitken & Harrison, 1999:606; Ruane & Uğur, 2004:63). According to Zanfei (2005:10), the positive effects will outbalance the negative effects of an FDI presence in host markets if multinationals stem from industries based on complex technologies, as they are more willing to form linkages with local

suppliers. Further positive effects would occur if human capital in the host country is comparable to that of the foreign enterprise's country of origin as multinationals would be enticed to source inputs locally.

2.5.1. Demonstration and competition effects

According to Blomström and Kokko (1998:16), in practice it is difficult to distinguish between the effects of demonstration and competition when it comes to imitation and the adoption of new technologies as the two are related. They suggest that the behaviour of local enterprises associated with the presence of multinationals might be a joint effect of demonstration and competition. Kneller and Pisu (2007:131), on the other hand, argue that it is possible to determine whether competition effects or demonstration effects were the source of a spillover. In other words, with the right methodology one can determine the channel through which the spillover is being diffused; however, most studies relate to the joint effect of demonstration and competition.

Barrios et al. (2005: 1782), using plant level panel data for the manufacturing sector in the Republic of Ireland over the period 1972 to 2000, found that the impact of a multinational presence on local enterprises follows a U-shaped curve. Firstly, the entry of multinational enterprises will force local enterprises out of business meaning that competition effects will dominate, that is, initially an increasing presence of multinationals will harm the development of local enterprises by forcing some out of the market through competitive pressure. Later, however, as multinational enterprises continue to increase the equilibrium the number of local enterprises starts to increase as a result of the dominance of the positive externalities effects. It is assumed that multinational enterprises bring with them some sort of superior technology that will spill over to local enterprises, which will assist them in improving their efficiency and hence productivity. Also, it is believed that multinationals would demand intermediate inputs from local enterprises, which will kick-start the development of the local industry in a

manner that would contribute to the exporting behaviour of local enterprises (Barrios et al., 2005:1762; Greenaway, Sousa & Wakelin, 2004:1028-1029). These results are obtained under the assumption that an FDI is the only way to penetrate the local market and that multinationals do not re-export their production to a third market. Barrios et al. (2005:1762) and Kneller and Pisu (2007:107) agree that the potential effects of a multinational presence would be large if an FDI is export-oriented rather than host market-oriented, as the production of local enterprises would expand via the exports of multinationals. Barrios et al. (2005:1771-1772) assume that export-oriented multinationals would source intermediate products from local enterprises as such local enterprises in the intermediate product sector would expand their production via the exports of multinational enterprises.

The importance of exporting is well acknowledged. For instance, Czinkota (2002:123-124) noted that exports are the main support of international economic performance; they shape public perception of the competitiveness of a nation and also determine (at least in the long term) the level of imports that a country can afford. Ahmed, Cheng and Messinis (2007:10), however, indicate that exports not only support international economic performance, but also contribute to GDP growth. That is why the presence of multinational enterprises would be highly appreciated if they yield an export spillover. In fact, Greenaway et al. (2004:1029-1030) opine that given the value of government subventions provided to multinational enterprises there has to be an assurance that benefits will accrue to such governments. Greenaway et al. (2004:1029) therefore investigate whether there is a relationship between a multinational entry and changes in the exporting behaviour of local enterprises. According to Kneller and Pisu (2007:110) and Greenaway et al. (2004:1039), exporting involves fixed costs such as the establishment of distribution networks, and since multinationals already have knowledge and experience of operating in foreign markets, their costs of entering a foreign market are lower compared to enterprises that are entering foreign markets for the first time. A transfer of this knowledge from multinationals to local

enterprises constitutes a positive spillover. The authors agree that initially the entry of multinational enterprises will lead to increased competition; however, they may have a positive effect on promoting increased export activity on the part of local enterprises. It is further noted that enterprises that will endure the entry of multinational enterprises will acquire an improvement in their efficiency and hence their productivity. It is acknowledged that enterprises that export are more productive than those that do not, which means an improvement in the productivity of local enterprises as a result of multinational presence as they motivate the export of local enterprises (Greenaway et al., 2004:1029-1030; Kneller & Pisu, 2007:106). Further, it is noted that as enterprises engage in exporting due to the presence of multinational enterprises the learning effects or competition effects might guide them to become even more productive (Greenaway et al., 2004:1029-1030; Kneller & Pisu, 2007:106). In their study, Greenaway et al. (2004:1039) established that the presence of multinational enterprises in the local market clearly appears to increase the probability of local enterprises becoming exporters and they advance that increased competition brought about by the entry of multinational enterprises may be the principal transmission channel for the export spillover effects. Kneller and Pisu (2007:109), while acknowledging that the presence of multinational enterprises will impact on the export decision of domestic enterprises, notice that the extent to which export spillovers can accrue to local enterprises depended on the physical proximity of multinationals to local enterprises as well as whether multinationals are operating in the same industry as the local enterprises and have a buyer-supplier relationship. The authors also noted that the effect of the presence of multinationals would be different for exporters and non-exporters. Using a data set of British manufacturing enterprises from 1992 to 1999, Kneller and Pisu (2007:131) found that non-exporters appeared to benefit from exporting spillovers in a limited manner. That is, the contact that the local enterprises had with multinationals seemed not to have motivated non-exporters into engaging in exporting. The changes in the exporting activity of non-exporters only occurred through supplying inputs to multinationals for their use to produce exports. Thus,

exporting enterprises appear to be influenced by the presence of multinational enterprises as their own exporting activity intensified.

2.5.2. Labour mobility effects

Labour mobility is considered to be one of the channels through which technology transfer between multinational and local enterprises can occur (Fosfuri, Motta & Rønde, 2001:207; Glass & Saggi, 2002:496; Görg & Strobl, 2005:694). According to the aforesaid authors, labour mobility enables the transfer of technology from multinationals to local enterprises when workers that have worked in multinationals decide to leave and join existing local enterprises or start up a new enterprise. In this event they would be taking with them some of the multinational's specific knowledge. Multinationals can prevent labour mobility, especially if they regard their workers to be attractive to local enterprises. Multinationals may choose to pay a wage premium to preserve their technological superiority. It is argued that when multinationals pay premium wages to prevent worker movement that would still raise the host country's welfare (Glass & Saggi, 2002:496; Fosfuri et al., 2001:207).

Barry, Görg and Strobl (2005:81), using plant level data of manufacturing enterprises for 1990 to 1998 in Ireland, found that a multinational presence contributed to increasing skilled workers' wages. In this case a technology transfer was not achieved as multinationals prevented the movement of skilled workers to local enterprises because of the higher salaries. It was noted that these premium wages even drew skilled workers from local enterprises, therefore negatively affecting the productivity of local enterprises. The findings of Barry et al. (2005:81) disproved the contention of Fosfuri, et al. (2001:214) that technology spillovers are likely to occur when multinationals are not in direct competition with local enterprises. As seen in the case of Ireland, the multinationals were export-oriented so there was little product-market related competition between the multinationals and the local non-exporting enterprises

(Barry et al., 2005:71). The local exporting enterprises were operating in different sectors from the multinational enterprises and the export destinations of multinationals and local exporting enterprises were quite different. Rather, Barry et al. (2005:81) supported the submission of Fosfuri et al. (2001:215) that low levels of absorptive capability of local enterprises reduce the likelihood of technology transfers from multinationals.

There is empirical and modelled evidence showing that in cases where an employee moved from a multinational enterprise to a local enterprise, especially movement within the same industry, technology spillovers were detected (Görg & Strobl, 2005:706; Fosfuri et al., 2001:212). According to Glass and Saggi (2002:496), labour mobility from multinationals to local enterprises occurs predominantly in more developed countries. Fosfuri et al. (2001:212) agree that labour mobility is likely to occur in a more developed country in that they indicated that higher labour mobility is expected in host countries that are technologically advanced and have a highly skilled labour force, which seems to describe the characteristics of a developed country. Görg and Strobl (2005:706), however, using enterprise-level panel data of manufacturing enterprises in Ghana, found that among local enterprises in Ghana, some workers had moved from multinationals to local enterprises and using the experiences gained from multinationals in the same industry, they ran more productive enterprises than other local enterprises. As Ghana is a developing country, a certain amount of labour mobility is possible from multinationals to local enterprises and in that manner, technology transfer can be attained. Dimelis (2005:88) and Görg and Greenaway (2004:180) opine that the extent of technology spillovers from multinationals depends on among others the technology gap between multinational enterprises and local enterprises, which contributes to the capability of local enterprises to assimilate technology and absorb the resulting spillovers.

Criticism has been levelled against studies that reveal the positive effects of a multinational presence. It is pointed out that the positive effects of a multinational

presence obtained in some studies might be biased because of the use of different data and methodological approaches. For instance, the authors noted that studies that detected positive effects of a multinational presence on local enterprises mostly used aggregated sectoral cross-section data instead of panel data (Aitken & Harrison, 1999:611; Castellani & Zanfei, 2003:560; Zanfei, 2005:14; Görg & Greenaway, 2004:176). Dimelis (2005:86) while acknowledging the limitations of cross-sectional data, that is, its failure to account for dynamic as well as observable enterprise specific effects that may result in biased and inconsistent estimates, argues that the use of large cross-sectional data over time allows the researcher to control such effects. Besides, Dimelis further noted that certain studies that used panel data also detected positive spillovers from a multinational presence.

2.6. GLOBALISATION DEBATE

Allen and Raynor (2004:16-17) advanced a view that globalisation is coming to an end. They name the ending of globalisation “deglobalisation”. Furthermore, they maintain that the trans-Atlantic disagreements over the war in Iraq, the problems surrounding global trade talks and the proliferation of bilateral and regional trade are signs of “deglobalisation”. According to Allen and Raynor (2004:16), deglobalisation is not assured but deserves more attention than it receives.

Rugman (2003:409) and Rugman and Verbeke (2004:3) also regard globalisation as a myth. The authors assume that the key drivers of globalisation are multinational enterprises (MNEs), especially the 500 largest MNEs that account for half of the world’s trade. Using trade data of the largest MNEs, the aforementioned authors argue that most trade occurs at a regional level within the triad economic blocks of the European Union, North America and Asia, and not globally. Their arguments are based on data drawn from 365 large MNEs of the largest 500. Rugman (2003:412-413) and Rugman and Verbeke (2004:5-7)

indicate that data as shown in table 2.1 suggest that the spread of sales of the 365 enterprises is in actual fact regional. They measured globalisation by the extent to which enterprises' sales are dispersed over different regions. They also explain that for an enterprise to be regarded as a global enterprise it should generate at least 20 percent of its sales from the three regions but less than 50 percent in one region (i.e., European Union, North America and Asia as this is considered to be the areas where the largest MNE trade occurs). A high concentration of sales in two regions indicates that such an enterprise is not global but rather bi-regional; however, if the concentration falls in one region only, which is a host region, such an MNE is regarded as host region oriented. Then again, if an MNE generates 50 percent of their sales in their home region, it is regarded as home region oriented.

The data reveals that 320 enterprises reported on average 80.3 percent of their sales in their home region of the triad, a set of 25 enterprises reported their sales in two regions of the triad, while 11 enterprises are host region oriented and only 9 are regarded as global because they had sales of 20 percent or more in each of the three parts of the triad but less than 50 percent in any one region of the triad (see table 2.1 for statistics) (Rugman & Verbeke, 2004:7; Rugman, 2003: 413).

Table: 2.1. Classification of top 500 MNEs in 2001

Type of MNE	Number of MNEs	% of 500	% of 380	% of intra-regional sales
Global	9	1.8	2.4	38.3
Bi-regional	25	5.0	6.6	42.0
Host-regional oriented	11	2.2	2.9	30.9
Home regional oriented	320	64.0	84.2	80.3
Insufficient data	15	3.0	3.9	40.9
No data	120	24.0	-	Not available
Total	500	100.0	100.0	71.9

Source: Rugman (2003:413); Rugman and Verbeke (2004:7)

Stevens and Bird (2004:509) have criticised Rugman's (2003) evidence and in fact in response pointed to numerous flaws in what is presented as evidence and to the contrary regard the evidence provided as further proof that globalisation is alive and well.

According to Stevens and Bird (2004:502-509), Rugman's (2003: 409-417) statements have the following flaws:

- The broadly defined concept of "region" by Rugman (2003:411) renders it geographically meaningless. For example, Europe is defined to include Africa and the Middle East while North America included Central and South America. As most of the enterprises operated in all three regions it is surprising that they are considered regional and not global.
- The use of sales revenue as the only measure of globalisation excludes other important variables that have been used to substantiate the existence of globalisation, issues such as foreign sourcing of raw materials by local or regional enterprises, joint ventures, management contracts and cultural impact to mention a few.
- Failing to define his view of globalisation and also being unable to differentiate what is global and what is regional. According to Stevens and Bird (2004:503), it is difficult to determine from Rugman (2003: 409-417) the point at which national presence transcends into a regional presence and regional presence transcends into a global presence. Stevens and Bird (2004:502), while acknowledging that regional trade activities and regionalism is a dominant economic force as reflected by the sales revenue data, hardly see that as evidence of the absence of globalisation. The concerns as to whether the upcoming regional preferential trading blocks would not hamper free world trading have been raised. Different arguments have been posed, for instance, Murinde (2001:2) argues that regionalism is a promising route to participating beneficially in world trade and further indicates that even if it can act as a stumbling block in the transition phase, it is really a building block in the long

term. Sideri (1997:68) views the impact of regionalism as twofold; as an attempt to reduce the pace of globalisation on the one hand, while on the other hand, it could work as a building block to globalisation and in reality Sideri (1997:68) believes it to be a building block rather than a stumbling block. Segal-Horn (2002:15), in contrast, views regionalism as a parallel trend to globalisation that can block globalisation, since he regards regional trade as antithetical to global trade. Segal-Horn (2002:15) also argues that with regionalism, trade barriers are simply removed from individual countries to be reproduced at a regional level or for a set of countries. However, Stevens and Bird (2004:502) advise that the globalisation versus regionalism debate should be framed as one of degree and not as a dichotomous argument.

The controversial debate advanced by Rugman (2003) and Rugman and Verbeke (2004) is not startling. According to Ricks (2003:356), a great deal of controversy exists concerning this phenomenon. The globalisation process has been accused of reducing national sovereignty, exporting wrong technology and supporting “bad” political leaders, to mention a few. To some however, globalisation brings about new opportunities such as greater access to global markets, acceleration of technology transfer, improved productivity and increased efficiency (Hartungi, 2006:728).

According to Segal-Horn (2002:8, 13-15), globalisation is a phenomenon accepted as a fact despite the myths that still surround it. Majocchi, Bacchiocchi and Mayrhofer (2005:720) also consider the process of globalisation as an undisputed reality. In fact, according to Muhammad et al. (2010:66) there is no doubt that economic activities are moving in the direction of globalisation.

Another area of the globalisation debate has centred on the distribution of the benefits of globalisation. Discussions in the early twentieth century were questioning whether the process of globalisation has benefitted the world

economy in general. There was a general consensus that the benefits of globalisation are unequally distributed among the world's population (Mrak, 2000:9; Loots, 2001:5; Murinde, 2001:1; Development Policy Management Forum, 2002:12; Mostert, 2003:7). In fact, Mostert (2003:7) concluded that developing countries are not receiving the advantages of the process of globalisation. Loots (2001:7), for instance, demonstrated that developing countries started enjoying the benefits of globalisation in the 1980s and early 1990s but their participation was minimal. Statistics as portrayed in Loots (2001:5-7), indicate that at the beginning of the globalisation process the role of developing countries was very small. For example, it is indicated that global foreign exchange markets had grown from \$15 billion in 1973 to an average exceeding \$1000 billion per day in the year 2000. The total world exports increased on average from \$1000 billion in the 1970s and \$2650 billion in the 1980s to an average of \$5440 billion in the 1990s. The volume of net world FDI inflows as a percentage of the world's GDP increased from 0.7 percent in the 1980s to 2.2 percent in 1998. The author noted, however, that financial flows to developing countries only started in the 1990s and portfolio equity flows to developing countries amounted to only \$2.7 billion in 1990 and increased to \$28 billion in 1999. Participation of developing countries in the world trade rose by an average of 3 percent per annum in the 1980s and an average of 12 percent per annum during the 1990s. FDI inflows to developing countries rose to approximately 42 percent of total world flows in 1999. Observing the proportion of developing countries in relation to the world contribution, developing countries had not yet participated much in the globalisation process.

On acknowledging that developing countries had not yet fully participated in the globalisation process and as such were not benefitting equally like the developed countries, the important issue was to determine actions necessary to ensure that both developing and developed countries could benefit equally from the process of globalisation. It was noted that the primary determinant that enabled access to the benefits of globalisation is the country's own policies subject to multilateral

and regional regulations (Hoekman, Michalopoulos & Winters, 2004:481; Chadha et al., n.d.:1; Ahmed, Cheng & Messinis, 2007:1; Mrak, 2000:12-13). Therefore, to ensure that developing and developed countries equally benefit from the process of globalisation countries had to individually relook at their trade policies and jointly agree on better rules for global trade. The issue of interest that emerged was whether the adopted trade liberalisation policies (unilateral, bilateral/regional and multilateral) had equalised or were trying to equalise the benefits of the globalisation process. A number of studies investigated the links between trade liberalisation policies with the benefits of globalisation accruing from such links. For instance, Adewuyi and Akpokodje (2010: 412-416), investigated the impact of trade reform on Nigeria's trade flows. Their study determined that in the 1980s Nigeria experienced poor export performances, fluctuating terms of trade, as well as internal macroeconomic crises, which adversely affected the domestic supply capacity and the international competitiveness of exports. The government responded to the deteriorating economic environment by increasing trade protection and exchange control while maintaining the unsustainable trend in aggregate demand, but the situation worsened. By mid 1986, the government of Nigeria realised that drastic policies were needed in order to put a halt to economic deterioration hence the reform on the existing trade policy was instituted. The trade policy reform introduced various export incentive schemes, tariffs were reduced, export tax eliminated, import licences were gradually rescinded and export promotion policies pursued. According to Adewuyi and Akpokodje (2010: 412-416), the country achieved growth during this trade liberalisation period though trade liberalisation did not produce an impact that was sufficiently significant to boost Nigeria's trade flows.

One of the significant unilateral trade preference programmes that offered Central American, Caribbean and SSA countries access to the US market, namely AGOA, has been credited for the increase in the export-oriented FDIs of many developing countries (Lall, 2005:999). The statistics for 2004 reported in MIGA (2006: 21-29) on nine SSA countries also eligible for AGOA, indicated that

AGOA eligible countries have managed to benefit from the globalisation process as they have attracted FDIs (see table 2.2). The statistics support the issue that trade reforms (unilateral, bilateral or multilateral) enable countries to benefit from the globalisation process.

Questions that arise are whether the benefits enjoyed due to any trade arrangement could be sustained. According to the Congressional Research Service (2003:24-25) and Langton (2008:24-25), concerns were raised with regard to the termination of the Agreement on Textiles and Clothing (ATC). One has to note that prior to AGOA, sub-Saharan African countries did not have access to the markets of developed countries, especially the USA and Europe, because the developed countries imposed barriers to entry of textiles and clothing from developing countries.

Table 2.2: Statistics for 2004 FDI inflows for selected sub-Saharan countries also eligible for AGOA

#	Country name	FDI inflows (in million USD)	FDI (percentage of GDP)
1	Ghana	139.0	1.57
2	Kenya	46.1	0.29
3	Lesotho	123.5	9.40
4	Madagascar	45.0	1.04
5	Mali	180.0	3.70
6	Mozambique	244.7	4.02
7	Senegal	70.0	0.90
8	Tanzania	249.1	2.30
9	Uganda	222.0	3.25

Source: MIGA (2006:21-29)

According to Nordås (2004:13), the protection of textiles and clothing started in the 1950s when Japan, Hong Kong, China, India and Pakistan agreed to voluntary restraints for cotton textile products to the United States. These voluntary export restraints, known as International trade in cotton textiles, turned into a long term agreement which was later replaced by the Multi-fibre Agreement (MFA) in 1974 under the auspices of GATT (Nordås, 2004). Under the MFA, the developed countries imposed quotas on exports of yarn, textiles and apparel from developing countries (Chadha et al., (n.d.)). According to Nordås (2004:13), the MFA extended restrictions on trade to wool and manufactured fibres. In January 1995, when the World Trade Organisation (WTO) was established, it put into effect a new agreement called the Agreement on Textiles and Clothing (ATC) that replaced the MFA over a 10-year period meaning that restrictions on textiles and clothing from Asian countries were to end in 1995 (Central Bank of Lesotho: 2004; Nordås, 2004:13). Countries like Lesotho and others that qualified for AGOA attracted FDIs into their countries as enterprises operating within them had access to markets they otherwise would not have had. The enterprises that were attracted to operate in Lesotho were those whose countries were still restricted by the ATC from entering markets such as the USA and who would be able to enter such markets if operating from Lesotho as the country qualified for a concession under AGOA. That is why concerns were raised regarding the termination of ATC and its effects on AGOA beneficiaries. According to the Congressional Research Service (2003:24-25) and Langton (2008:24-25), the USA uses safeguard measures to prevent disruptions from heavy imports from China and as such it is believed that this gives AGOA beneficiaries an advantage, even if the countries that were restricted by ATC are allowed to enter the textile and apparel international market. It is acknowledged that safeguard measures are still necessary to protect AGOA beneficiaries because they would fail to survive without protection; in other words, trade liberalisation does not ensure sustainability. Lall (2005:1010) also raised concerns on whether AGOA beneficiaries, Lesotho specifically, will continue to enjoy the benefits of globalisation post AGOA, that is, whether Lesotho can continue to attract export-

oriented FDIs post AGOA. In Lall's (2005:1010) view, the sustainability of the Lesotho apparel export industry after AGOA would depend on whether its process and organisational efficiency would match those of competitors in the open market, after adjusting to wage differences. The findings of Lall (1010-1014) indicated that AGOA privileges have sheltered numerous deficiencies in Lesotho, such as very low labour productivity, poor physical infrastructure and weak FDI promotion and attraction, to mention a few. According to Lall, with the end of AGOA, the apparel industry will disappear once Lesotho is exposed to Asian competition. In fact, the small, micro and medium enterprises (SMMEs) are more affected by pressures from the competitive international environment as they have to compete against the international giants (Ndimande, 2000:11; Muhammad et al., 2010:67; Singh, Garg & Deshmukh, 2010:55). Lall (1010-1014) further noted that even if AGOA is extended, this will not mitigate the underlying competitive problem unless the underlying structural issues are addressed. It means that developing countries have to address factors that contribute to their deficiencies in order to ensure that they can enjoy the benefits of globalisation post trade preferences. SMMEs, especially those from developing countries, face numerous challenges as they attempt to take advantage of potential opportunities that globalisation afford. It is noted that SMMEs, which operate under unfriendly policy and regulatory environments, have difficulty in accessing credit, lack capacity in product design, and lack managerial capabilities, to mention a few (Economic Commission for Africa, 2000:1; Muhammad et al., 2010:68; Singh et al., 2010:61). Despite the challenges facing SMMEs in the globalised environment there is ample evidence that SMMEs have not only flourished in the domestic economies, but that their international presence has grown as well (Ndimande, 2000:11; Muhammad et al., 2010:67). For instance, Singh et al. (2010:54) indicate that SMMEs contribute 56 percent of the manufactured exports in Taiwan, over 40 percent in China and the Republic of Korea, and 31 percent in India. This means that globalisation has implications for SMMEs as well as multinational enterprises. It is noted that when SMMEs invest abroad they generally seek assistance from larger enterprises

meaning that the internationalisation of SMMEs is joined to that of multinationals (Muhammad et al., 2010:67). Multinationals, for instance, can obtain the supply of components, parts and sub-assemblies from SMMEs and as noted earlier, can enhance their productivity and as such motivate their exporting (Greenaway et al., 2004:1029-1030; Kneller & Pisu, 2007:106).

2.7. CONCLUSION

It is generally agreed that although globalisation is a defining term for the 1990s, it is not new as it started before the World Wars. It is also noted that globalisation is more accelerated than before and people are now able to observe and judge changes as they take place.

The globalisation process is driven by market, competitive, cost, political and technological factors. There are still conflicting views, though, on the impact of globalisation. At one extreme globalisation is regarded as a tool that promotes growth and reduces poverty, while on the other extreme, there is a notion that globalisation causes more poverty and inequality. Positive effects of globalisation on growth and poverty reduction are acknowledged. However, negative effects of globalisation on the environment cannot be denied, hence there is a growing need to have complementary policies in place that will reduce or avert environmental problems.

While there are a number of actors in the globalisation process, multinational enterprises are regarded as key. The role played by multinationals has been a subject of interest as host or home countries are interested in their net effect on their economies. The net effect of multinational enterprises on their host or home countries is still a debatable issue; however, there appears to be an agreement that multinationals contribute to the productivity of local enterprises, which in turn will motivate exporting activities by such enterprises. Further, it is noted that globalisation is a controversial phenomenon that is widely debated. The debate

ranges from questions relating to its existence, the equitable distribution of its benefits to the sustainability of such benefits in cases where they are being enjoyed. Literature tends to support the existence of globalisation. The inequitable distribution of the benefits of globalisation is acknowledged. The measures put in place to facilitate the equitable distribution of the benefits of globalisation are discussed and the limitations of such measures are noted. There are suggestions furnished in the literature indicating measures that countries can put in place to enable enterprises in their countries to enjoy the benefits of globalisation. The next chapter discusses the internationalisation process of enterprises.

CHAPTER 3

INTERNATIONALISATION OF ENTERPRISES

3.1. INTRODUCTION

Globalisation, through a variety of driving forces, has prompted an increasing number of enterprises to develop strategies to enter and expand into markets outside their home locations (Osland, Taylor & Zou, 2001:153; Bitzenis, 2004:406; Johansson, 2006:5). According to Kidger (2002:69), an increasing number of enterprises are now competing in international markets as barriers to movement of capital and tariff walls have been reduced. As stated by Majocchi, Bacchiocchi and Mayrhofer (2005:720), and O’Cass and Julian (2003:366), internationalisation is not merely an option that enterprises choose to follow, but is essential for the survival and success of enterprises. Internationalise or die, according to Verdin and Van Heck (2001:25-26), is one of the slogans in the international scene; however, the authors argue that industries where only international players survive have been exceptions rather than the rule. Further, Verdin and Van Heck (2001:25-26) indicate that there are few industries, such as the aeroplane manufacturing industry, where only a few big players survive and the minimum scale goes beyond any national market. Even in the so-called “global” industries, according to the authors, non-global enterprises will and may even outperform global enterprises. The take of Verdin and Van Heck (2001:26) is that in most industries one has a choice to either internationalise or not to do so.

Traditional as well as emerging models provide an explanation for the internationalisation behaviour of enterprises (Yakhlef & Maubourguet, 2004:194; Spence & Crick, 2006: 526; Nummela, Loane & Bell, 2006:564; Slater, Paliwoda & Slater, 2007:1624). Despite the distinctive contributions of each school of thought, it is noted that the emerging models are introducing convergence into internationalisation theory (Whitelock, 2002:346; Jones & Coviello, 2005:286).

3.2. THEORIES OF INTERNATIONALISATION

There are numerous definitions of internationalisation. Some authors describe it as the outward growth in an enterprise's international operations (Chetty, 1999:122; Židonis, 2007:275). Others define it as the process of increasing involvement in international operations encompassing both inward and outward interconnection of enterprises within international markets (Ovara & Wiklund, 2004:130; Yakhlef & Maubourguet, 2004:203). In this study, the researcher adopts the definition of the outward movement of the international operations of an individual enterprise or larger groupings. A number of theories and conceptual frameworks have been put forward outlining the decision of the enterprises to initiate the internationalisation process (Jones & Coviello, 2005:286; Spence & Crick, 2006:526; Slater et al., 2007:1624; Pinho, 2007:717).

3.2.1. Traditional theories

Traditionally, the internationalisation process was predicted by three modes of thinking, namely, the Uppsala/stage/process models, the network approach and foreign direct investment (FDI) theories (Lloyd-Reason, 2002:122; Yakhlef & Maubourguet, 2004:194; Pinho, 2007:717).

3.2.1.1. The Uppsala/Stage Model

The Uppsala/ Stage models suggest that enterprises enter foreign markets in a systematic and forward moving sequential manner (Johanson & Vahlne, 1990:11; Johanson & Vahlne, 2006:175; Chetty, 1999:122; Spence & Crick, 2006:526; Židonis, 2007:275; Slater et al., 2007:1624). The first model appeared in the mid-1970s, developed by Scandinavian researchers of the Uppsala school (Leonidou & Katsikeas, 1996:521; Pla-Barber & Escribá-Esteve, 2006:255); hence the name Uppsala model. As the thesis behind this line of research argues that internationalisation is sequential and therefore will happen in stages, the model became popularly known as the stage model (Pla-Barber & Escribá-Esteve,

2006:255; Pinho, 2007:717). According to the model, the process of internationalisation of enterprises follows two patterns. One is that the engagement of an enterprise with potential markets in a specific country may develop according to an established chain: it starts with non-participation in foreign markets due to a lack of experiential knowledge, then export will take place via an independent representative, later internationalisation will take place through a sales subsidiary, and eventually, manufacturing in foreign markets may follow. On the other hand, the model suggests that enterprises would enter new markets sequentially based on psychic distance. Psychic distance is defined in terms of factors such as differences in language, culture or political systems, which will disturb the flow of information between an enterprise and the market (Johanson & Vahlne, 1990:13; židonis, 2007:276). Thus, enterprises will start internationalisation by entering markets they can most easily understand, where it would be less difficult to identify opportunities, and perceived market uncertainty would be less. Then later they would enter markets with greater psychic distance.

The Uppsala/Stage theory models were extending the original arguments posed by Penrose (1959), who outlined the importance of knowledge creation to the growth of enterprises, including the expansion into international markets (Johanson & Vahlne, 1990:12; Slater et al., 2007:1624; židonis, 2007:275;). The Uppsala/Stage theory models pinpoint two kinds of knowledge, namely objective knowledge that can be taught and experiential knowledge that can be acquired only through personal experience. It is assumed that market knowledge, including perceptions of market opportunities and problems, is acquired primarily through experience from current business activities in the market. That is, experiential market knowledge is considered a crucial determinant of the internationalisation of enterprises as it is through such knowledge that business opportunities in foreign markets can be identified and market uncertainty can be reduced (Johanson & Vahlne, 1990:12; Michailova & Wilson, 2008:243). In fact, židonis (2007:275) relates that a lack of experiential knowledge actually prevents

enterprises from entering culturally distant markets and as knowledge increases more distant markets would be selected. It is further noted that experiential knowledge is largely country-specific, meaning that it can be generalised to other country markets to a limited extent (Johanson & Vahlne, 1990:12; Židonis, 2007:276). Thus, an enterprise is expected to make a stronger resource commitment to international markets incrementally as it gains experience from current activities in each market subject to its resources, market conditions and experience gained from markets with similar conditions that can be generalised to new markets. In their original form, Uppsala/Stage theory models related the processes of knowledge and commitment building to the focal enterprise, but later it was determined that the experiential learning and commitment building underpinning the original Uppsala internationalisation model occurred as an interplay between at least two potential partners (Johanson and Vahlne, 1990:18-20; Johanson & Vahlne, 2006:166). It means that the updated Uppsala model recognises the role of networks in the enhancement of experiential learning and consequently internationalisation.

3.2.1.2. Network theory

It is noted that enterprises, large and small alike, are often incapable of acquiring and retaining control of the full range of value-added functions; therefore they require resources controlled by others, which can be obtained through networking (Chetty & Holm, 2000:80; Wright & Dana, 2003:138). Network theory emphasises the role of personal and business relationships (such as competitors, suppliers, customers), which are exploited for advantages that enhance the internationalisation process (Johanson & Vahlne, 1990:18; Coviello & Munro, 1995:50; Yakhlef & Maubourguet, 2004:194; Židonis, 2007:276). The relationship between competitors is referred to as horizontal networks, while that of buyers and suppliers is called vertical networks. Also, trans-industry networks refer to relationships among producers of unrelated goods (Wright & Dana, 2003:146).

In terms of networks, internationalisation means that an enterprise develops business relationships in a sequential manner. Firstly, enterprises establish new relationships, then nurture the relationships to deepen the network (i.e. penetration) and integrate their positions in networks in different countries (i.e. international integration) (Johanson & Vahlne, 1990:20; Chetty & Holm, 2000:80; Židonis, 2007:276). It means that networks are formed gradually through interaction during which the parties build mutual trust and knowledge. Business relationships are formed with enterprises that are established in foreign markets and help enterprises with their financial, marketing, technological and intellectual assets. It is expected that as business relations strengthen, foreign market uncertainties would decrease, resulting in increasing prospects for internationalisation (Yakhlef & Maubourguet, 2004:194; Židonis, 2007:276). Commonly, networks are formed between small and large enterprises (Dana, 2001:57; Etemad, Wright & Dana, 2001:482). According to the authors, smaller enterprises have used larger enterprises to reach global markets quickly and to achieve economies of scale by integrating into their value chain. Larger enterprises, on the other hand, form networks with smaller enterprises in order to reduce costs through greater specialisation, which they often achieve by outsourcing value added functions to smaller enterprises (Dana, 2001:57; Etemad, Wright & Dana, 2001:482).

However, there are challenges to business networking. Johanson and Vahlne (1990:19) note that entry into a network from outside requires other actors to be motivated to engage in interaction, something that is resource demanding as it may demand adaptations of some of the enterprise's operations. In fact, Chetty and Holm (2000:87) indicate that a relationship would materialise if each party has something to offer, meaning that a relationship should be based on mutual benefit to materialise. Also, the authors note that it is difficult to enter a tightly structured network where other actors are already established. Additionally, it is noted that often the weaker party in the network could be at risk of being at the receiving end where the dominant partner would have more say in the way the

relationship is structured because of a stronger bargaining power (Coviello & Munro, 1995:57; Etemad et al., 2001:482; Wright & Dana, 2003:140). In order to retain their independence and to maximise control, enterprises have tended to prefer internationalisation through wholly owned or majority-owned subsidiaries to the use of networks (Coviello & Munro, 1995:57; Etemad et al., 2001:482). The authors further note that even in cases where enterprises had entered into unbalanced relationships to supplement their weaknesses and to gain market access they will, in time, work towards gaining back their lost control and independence by developing internal capabilities. The recent evolution of networking, however, suggests that a relationship of unbalanced dependence may evolve toward a relationship of symbiotic interdependence (Dana, 2001:59; Wright & Dana, 2003:139; Etemad et al., 2001:488).

Dana (2001:140) describes symbiotic networks as forms of collaboration in which mutual control emanates from interdependence and mutuality of benefits. Symbiotic networks, according to Etemad et al. (2001:482), are relations where neither party in the collaboration can compete effectively without the continued contribution of the other as parties rely on each other in a sustained manner. Symbiotic relationships have proved to be sustainable because parties are dependent on each other. For example, a symbiotic network case between British Airways (BA), Sun-Air (a Danish airline) and Comair (a small airline in the Republic of South Africa) that started in the 1990s worked for all the parties involved (Dana, 2001:59; Etemad et al., 2001:496). The authors indicate that BA allowed the small airlines (Sun-Air and Comair) to paint its fleet in the colours of BA and its cabin crew to wear BA uniforms. BA managed to maintain its presence in minor airports where it would have been unprofitable to operate with large carriers, yet those routes were still important as they provided feeder traffic and enlarged their customer base. The small airlines were able to access international passengers, which would have demanded much greater resources to attain independently.

3.2.1.3. Foreign direct investment theories

Foreign direct investment (FDI) theories presuppose that enterprises engage in international production because they enjoy an enterprise-specific advantage (ESA), which they need to exploit in a timely manner in a given market place before it is eroded (Dunning, 1988:3; Madhok, 1997:39; Lloyd-Reason & Mughan, 2002:122; Yakhlef & Maubourguet, 2004:194). There are two FDI theories, namely, the internalisation FDI and the eclectic FDI theory. According to the internalisation FDI theory multinationals emerge because it would be more beneficial to the enterprises possessing the ESA to internalise their advantages, that is, expanding operations while maintaining control at the head office in their country of origin (Kim & Lyn, 1990:41; Wright & Dana, 2003:138). Eclectic paradigm also known as the OLI paradigm has been the leading explanation for the growth of multinational activity (Dunning, 2000: 163; Rugman, 2010:2; Arnett & Madhavaram, 2012:572). According to Dunning (2000:163-164) eclectic paradigm avers that the extent, geography and industrial composition of foreign production is determined by the interaction of three set of interdependent variables, which themselves comprises the components of sub-paradigms. First is the ownership (O) specific advantages which refers to competitive advantages of the enterprise seeking to engage in FDI or increase their FDI which are specific to the ownership of the investing enterprise (Dunning, 2000:164; Arnett & Madhavaram, 2012:573). The second is the locational attractions (L) of alternative countries or regions, for undertaking the value adding activities of MNEs (Dunning, 2000:164; Arnett & Madhavaram, 2012: 573). The third sub-paradigm offers a framework for evaluating alternative ways in which enterprises may organise the creation and exploitation of their core competencies given the locational attractions of different attractions of different countries or regions (Dunning 2000:164). According to Dunning (2000:164), all things remaining equal, the greater the competitive advantages of the investing enterprise, relative to those of other enterprises and particularly those domiciled in the country in which they are seeking to make their investment, the more they are likely to be

able to engage in or increase their foreign production. In addition foreign investment depends on the extent to which the endowments, which the enterprise needs to use jointly with their own competitive advantages, are immobile or natural to the specific location chosen for investment. Dunning (2000:164) indicates that the configuration of the OLI parameters facing any particular enterprise and the response of the enterprise to that configuration is strongly contextual. It shows that FDI theories place a premium on power and control over knowledge (Wright & Dana, 2003:138; Yakhlef & Maubourguet, 2004:194).

Traditional models of internationalisation, while they have been useful in their inception and might still be relevant in other situations, have attracted some criticism. Notably, some recent empirical findings are revealing behaviour patterns of enterprises not previously seen and which traditional models fall short to explain; hence a need for new paradigms (Fillis, 2001:767; Lloyd-Reason & Mughan, 2002:123; Gregorio, Musteen & Thomas, 2008:186; Zhang & Dodgson, 2007:336; Spence & Crick, 2006:526).

3.2.2. Emerging paradigms

Traditionally, competition in international markets was the realm of large enterprises, with smaller ones remaining local (Dana, 2001:57; Etemad et al., 2001:481; Wright & Dana, 2003:135). Hence, the majority of earlier research studies on internationalisation was centred on multinational enterprises (Fillis, 2001:773; Lloyd-Reason & Mughan, 2002:127). As the traditional theories are still dominated by an earlier conceptualisation of the origin of multinational enterprises, they are regarded more appropriate for explaining their internationalisation and inadequate for describing the internationalisation behaviour of small enterprises (Etemad et al., 2001:485; Fillis, 2001:773; Lloyd-Reason & Mughan, 2002:127).

Increasingly it is noted that small and medium enterprises (SMEs) are entering international markets (Fillis, 2001:767; Nummela et al., 2006:562; Wright & Dana, 2003:137). According to Etemad et al. (2001:481), the drivers of globalisation are removing the barriers that used to segment the competitive environments of small and large enterprises and as such enterprises of all sizes are beginning to share the same competitive space; hence small enterprises have to be globally competitive, unlike before. Consequently, according to Etemad et al. (2001:485), the traditional models that assume gradual systematic internationalisation are limited in defining internationalisation. According to the authors, the assumptions upon which traditional models are based have changed. For instance, markets of the world are globalising more rapidly than before. It is noted that the time frame in which an enterprise gains experience, accumulates resources, and develops the managerial capabilities required for international operations, is reduced. In addition, the authors recognise that smaller enterprises may have neither the prerequisite resources to internationalise, nor the luxury of unlimited time in which to acquire the resources; hence small enterprises are mostly guided by the entrepreneurial skills of their owners/managers. Etemad et al. (2001:485) indicate that entrepreneurial behaviour would not follow the gradual and controlled process of conventional stage theories.

Lloyd-Reason and Mughan (2002:126-127) notice that larger and smaller enterprises differ. The authors note that larger enterprises have a formal corporate governance structure with clear demarcation lines and formal decision-making processes. However, one individual, often an owner-manager mostly determines the decision-making processes of small enterprises. Hence, the international activities for smaller enterprises would tend to be opportunistic and intermittent as opposed to the incremental and stable patterns that larger enterprises display.

According to Chetty and Holm (2000:86, 91), in SMEs, the owner-manager plays an important role in identifying the stimuli for internationalisation and deciding

whether an enterprise will pursue such opportunities. The authors established, through their case study of small manufacturing enterprises in the electrical industrial machinery and timber processing industries in New Zealand, that while all four enterprises in the study had access to networks that could facilitate their internationalisation, one of the enterprises failed to internationalise because the owner-manager was not able to use the networks.

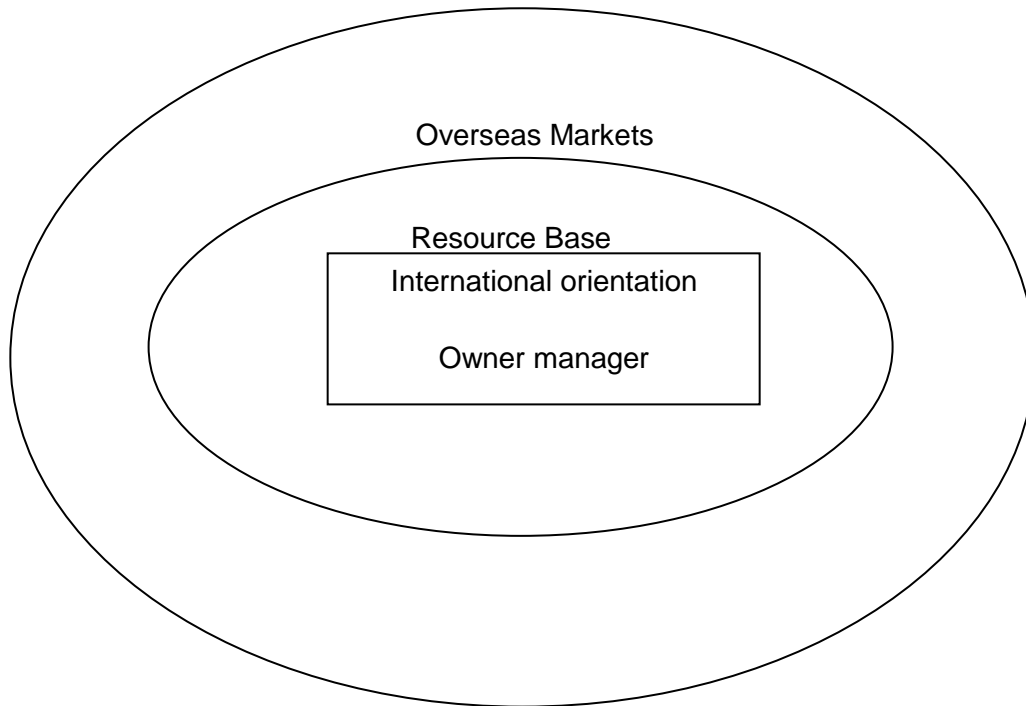
Fillis (2001:775) acknowledges that the internationalisation decisions of SMEs lie with the owner-manager and is of the view that the innovative culture and managerial philosophy of the owner-manager act as catalysts that render internationalisation possible. According to the author, investigating alternative paradigms of enquiry such as marketing and entrepreneurship is warranted to improve the understanding of smaller enterprise internationalisation from the owner-manager perspective. In the author's view, there is evidence of an overlap between marketing and entrepreneurship competencies and practices in the smaller enterprises, which act as competitive advantages in domestic and international markets. Smaller entrepreneurial enterprises exhibit competencies such as creativity and innovative thinking, opportunity recognition, risk taking ability, network and relationship building, which impact positively on their degree of internationalisation.

Lloyd-Reason and Mughan (2002:126-127), recognising the significant role that owner-managers play in the internationalisation decisions of SMEs proposed a model called the international web (see figure 3.1) to illustrate the role of the owner-manager in the internationalisation process of SMEs.

According to the model, the owner-manager is central to the internationalisation of SMEs. The attribute of international orientation (represented by factors such as educational background, existing formal and informal international contacts, knowledge of foreign competitors and experience of foreign cultures) plays a

pivotal role in determining whether a policy of internationalisation would be acceptable to owner-managers.

Figure 3.1: The internationalisation web



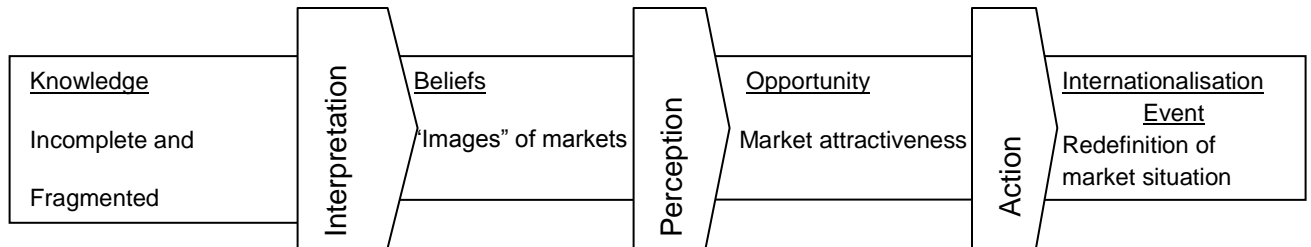
Source: Lloyd-Reason and Mughan (2002:127)

According to Lloyd-Reason and Mughan (2002:126-127), the internationally oriented owner-managers are more likely to undertake an internationalisation strategy. Willing owner-managers make available resources such as finances to make internationalisation feasible. The initiatives to equip an enterprise with resources are to be coupled with decisions regarding the target market and the most appropriate mechanism for exploiting that market, which relates to the outer level of the web.

Židonis (2007:277) modelled internationalisation of smaller enterprises on the process rather than factors that determine internationalisation (see figure 3.2). The author views internationalisation of smaller enterprises as an entrepreneurial

process of interpretation of knowledge (often incomplete, fragmented and even incorrect) by owner-managers to produce beliefs about the relative attractiveness of foreign markets. The entrepreneur would then take action based on beliefs to produce the international event.

Figure. 3.2: A model of entrepreneurial internationalisation



Source: Židonis (2007:277)

Židonis (2007:279) applied the model in evaluating the internationalisation of the Libra Company originating from Lithuania. The results showed that Libra successfully engaged in international markets with limited knowledge and experience. Libra acquired knowledge about international markets while already serving them. According to Židonis (2007:280), a lack of experiential knowledge did not hinder the enterprise from internationalising. The enterprise opened itself to learning and to developing new routines for operating in foreign markets. The enterprise learnt foreign operations by working with foreign partners in joint ventures. Židonis (2007:283) emphasises that in the process of entrepreneurial internationalisation, the opportunity plays a crucial role since it shapes the mode and direction of further actions. Židonis (2007:280) notes that the experiential knowledge gained in foreign markets did not diminish the risk-oriented behaviour of the enterprise as it entered into foreign operations that failed. Libra regards experiential knowledge as transferable for use to other new markets because, when entering additional new international markets, learning ceased to be the main source of knowledge and was replaced by the integration of knowledge that had been accumulated in the different enterprises of Libra holdings. Libra’s

internationalisation is credited to its entrepreneurial enthusiasm based on proactive behaviour.

The entrepreneurial model links together knowledge, beliefs, opportunities and international events. The case findings reveal that knowledge is used to create beliefs or images of markets. The beliefs serve as a basis for international opportunity, perception and recognition. An opportunity then shapes the mode and direction for further actions by enterprises. According to Židonis (2007:283), it is not important whether an enterprise enters distant markets or makes small incremental steps, but what matters is the difference between an enterprise's former situation and its situation after the internationalisation event. It means that an enterprise need not have a complete knowledge in this regard in order to internationalise, as they might miss the opportunity in the process, but as they internationalise with limited knowledge, they should accumulate knowledge that they will use to redefine the market situation and subsequent actions in the market.

Small enterprises that enter international markets are not only increasing in number, but they exhibit the accelerated internationalisation that traditional internationalisation models fail to explain (Fillis, 2001:767; Nummela et al., 2006:562; Acedo & Jones, 2007:236; Weerawardena et al., 2007:294). The instant or international new ventures (INVs) or born global enterprises, sometimes also called committed internationalist or internationally focused knowledge-intensive enterprises, are emerging in significant numbers worldwide and the phenomenon is attracting attention in international entrepreneurship as accelerated internationalisation is regarded as entrepreneurial (Fillis, 2001:776; Bell, Crick & Young, 2004:26; Mtigwe, 2005:359; Acedo & Jones, 2007:236). The accelerated behaviour of enterprises is common among enterprises that target small highly specialised global niches (Bell et al., 2003:341). Loane and Bell (2006:473) determined that the offerings of INVs are extremely niche in nature,

ranging from medical devices, biotechnology, intellectual property for semiconductor chips, and web development.

INVs are enterprises that from their inception seek to drive significant competitive advantages from the use of resources and the sale of outputs in multiple countries (Bell et al., 2003:341; Bell et al., 2004:25; Pla-Barber & Escribá-Esteve, 2006:258; Weerawardena et al., 2007:294, Acedo & Jones, 2007:237). According to Loane and Bell (2006:468), INVs view the world as their arena of operations and avail themselves of opportunities in many markets irrespective of the psychic or geographic distance involved. At times, INVs may actually ignore their home market altogether and target lead markets or may enter domestic and international markets concurrently (Bell et al., 2003:344-345). The authors further note that INVs have expanded to include enterprises that are already established in the home market, but have suddenly internationalised rapidly, classified more appropriately as “born-again”/“re-born”/resurrected global enterprises. The “born again globals” stem from a particular episode or a combination of several incidents occurring around the same time such as entry into the home market of a new client, who is already operating internationally; internationalisation of existing domestic customers; and change in ownership and/or management, often accompanied by an infusion of additional finance and access networks in overseas markets.

Enterprises categorised as INVs in Loane and Bell (2006:473) had export ratios ranging from 10 to 100 percent with the majority (54 percent) having a 51-90 percent export sales ratio. According to Bell et al. (2003:341) and Bell et al. (2004:25), entrepreneurs form INVs commonly involve substantial value adding, often due to a significant breakthrough in process or technology and their offerings. There is no agreement on the length of the period from inception to internationalisation to qualify an enterprise as an INV nor is there agreement on the intensity and geographic scope of foreign entries for an enterprise to do so. In Loane and Bell’s (2006:473) study, for instance, the majority of enterprises (71.3

percent) exported in under 2 years of their inception while their geographic scope ranged between 5 and 40 markets. Pla-Barber and Escribá-Esteve (2006:265), on the other hand, determined that accelerated internationalisation among Spanish exporters occurred in under 6 years of operation while incremental internationalisation took 7 to 10 years. Some of the enterprises in Spain hastened internationalisation after 1975 following the liberalisation of the Spanish market, supporting Bell et al.'s (2003:342) so called "epoch" internationalisation. Epoch internationalisation occurs when an enterprise that had previously focused solely on a domestic market is incited by any particular episode to suddenly internationalise rapidly.

According to Pla-Barber and Escribá-Esteve (2006:273), acceleration of the internationalisation process is linked to the proactive attitude on the part of the owner-managers of the organisation, a strategy based on marketing differentiation and a substantial influence of the network of relationships. In Loane and Bell's (2006:481) view, the acquisition, exploitation and the renewal of knowledge are key drivers of rapid internationalisation and the main source of international competitive advantage. While the extant network theory regards networks as an essential part in international market entry through which knowledge is acquired, Loane and Bell (2006:479) argue that network acquisition and network leverage constitute only one of the strategic actions undertaken by enterprises to gain a deeper knowledge of new markets as well as to develop and leverage a competitive advantage therein. In fact, the authors established that many INVs had no relevant networks at the start and had to build these from scratch as part of their resource and acquisition activities in support of internationalisation. The authors regard these findings as the highlight of one of the limitations of the extant network theories that conceptualises the pre-existence of networks.

Kundu and Katz (2003:42) identified resources and intentions as fundamental drivers of INVs as in the authors' view, internationalisation will occur only if

entrepreneurs intend to sell internationally; once intentions are asserted, access to resources will render the process fruitful. In the study conducted by Kundu and Katz (2003), resources were operationalised by the educational level and international experience of the entrepreneurs, while intentions were measured by their technological innovativeness, strategic orientation and the levels of foreign market coverage of the enterprises. The findings, according to Kundu and Katz (2003:42), portray an entrepreneur as the fundamental contribution that creates the conditions for future success in the INV. An entrepreneurial characteristic that was strongly related to export performance in the study was the owner's education and, according to the authors, an educated entrepreneur with a professional degree will be more outward looking and thus willing to explore foreign markets. The intentional measure significant to export intensity was technological innovativeness.

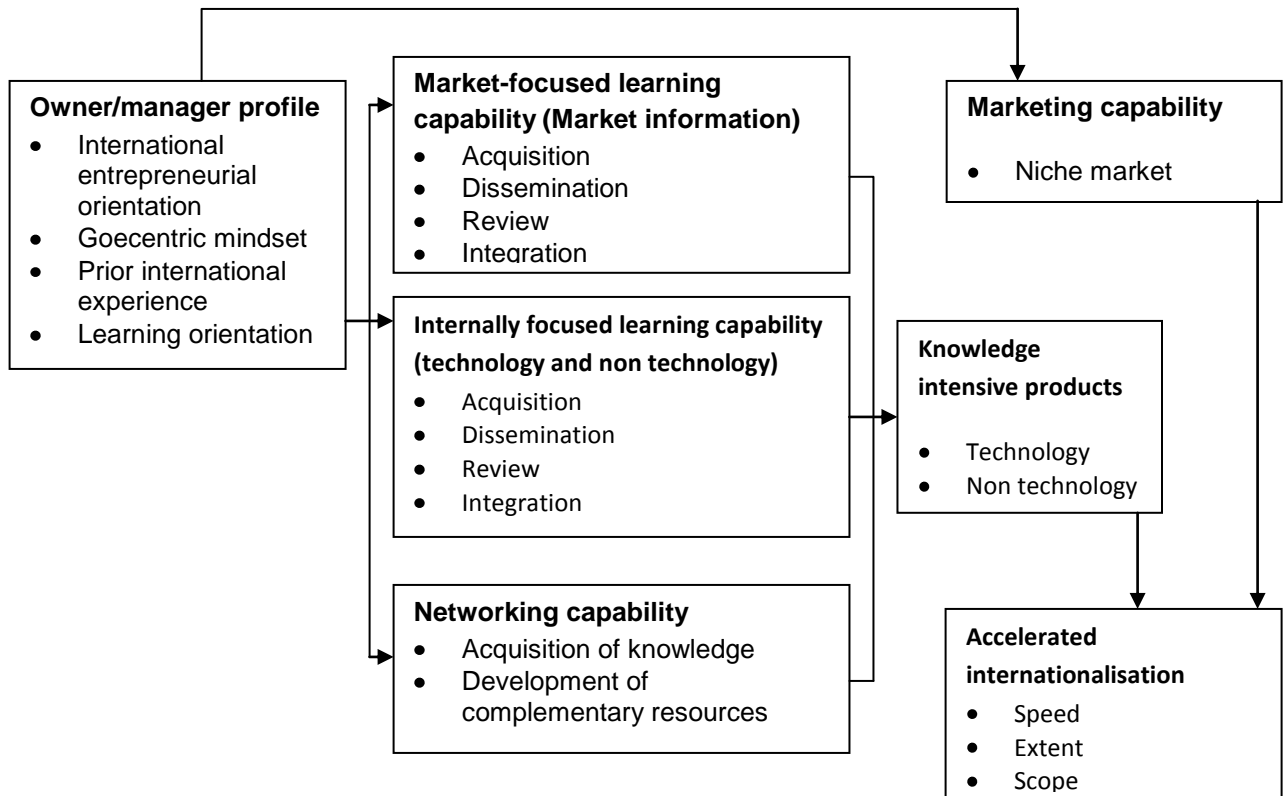
Weerawardena et al. (2007:298-301) provide a model of accelerated internationalisation (see figure 3.3) that captures factors that are found to influence accelerated behaviour. The factors comprise the entrepreneur and knowledge resources that can be acquired through different sources such as networks. The model conceptualises accelerated internationalisation as an outcome of the capacity building process driven by entrepreneurial owner-manager experience and learning orientation. The distinctive capabilities are acquired through market-focused learning, internally focused learning and network capabilities, which enable the development of leading-edge knowledge intensive products. INVs or born global enterprises will also develop superior marketing capabilities, facilitating an ability to position their enterprises rapidly in the global niche markets.

Market-focused learning is defined as the capacity of an enterprise, relative to its competitors, to create value activities. Market-focused learning is characterised by:

- The acquisition and dissemination of market information.

- The review of unsuccessful knowledge-based practices and communication of the lessons for improvement widely within the enterprise.
- The integration of market information into actionable knowledge that management can use for its goals in international markets.

Figure. 3.3: The proposed dynamic capability model of born global enterprises accelerated internationalisation



Source: Weerawardena et al. (2007:299)

Internally-focused learning capabilities refer to the enterprises' ability to build and nurture distinctive dynamic capabilities in pursuit of leading-edge innovative products. Internally-focused learning capabilities are characterised by:

- The acquisition and dissemination of technological and non-technological information generated within the enterprise.
- The review of unsuccessful enterprise routines.

- The ability to integrate internally generated information into knowledge that management can apply to its international goals.

Networking capability entails building and maintaining relevant, superior and effective networks to facilitate the acquisition of knowledge and the development of complementary resources.

According to the authors, a combination of these capabilities produces accelerated internationalisation and superior subsequent international market performance.

The role of network and entrepreneurial orientation in accelerated internationalisation has been validated in Styles and Genua (2008:156). Styles and Genua (2008:148) used the model adopted from Jones and Coviello's (2005) general model of entrepreneurial internationalisation to investigate the rapid internationalisation of enterprises created through the commercialisation of academic research. According to Styles and Genua's (2008:147-148) model, internationalisation is an entrepreneurial behaviour unique to the individual enterprise resulting from the interaction of the entrepreneur, an enterprise and the environment, supported by international networks that takes place over time (see figure 3.4).

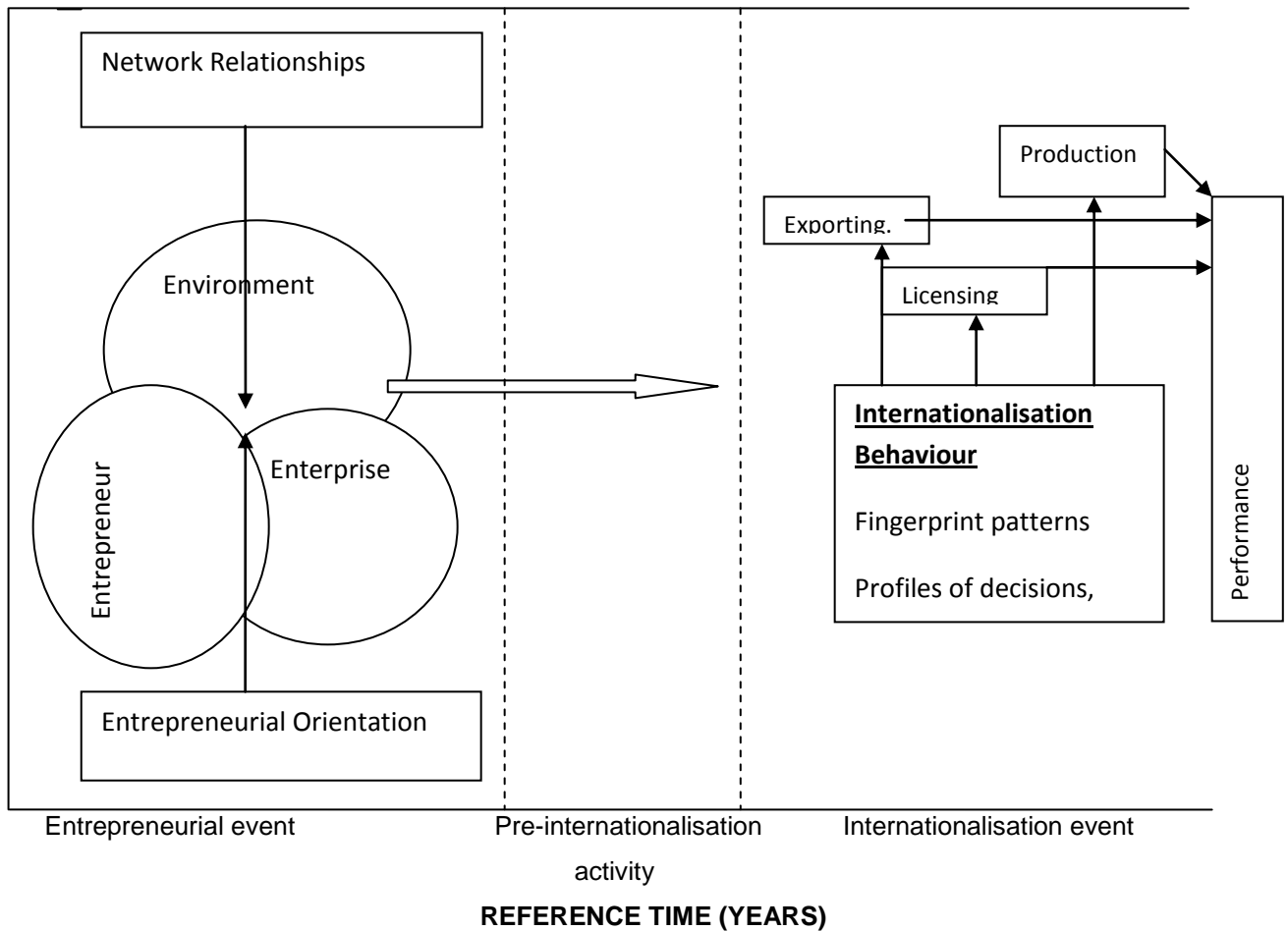
Styles and Genua (2008:154-155), using a case study design, determined that some enterprises created through the commercialisation of academic research internationalised. While others failed to do so. The internationalising enterprises are those that progress through the entrepreneurial event (which include the research and development phase and the initial stages of the commercialisation process), the pre-internationalisation activity (this stage begins during the commercialisation process and continues until the spin-off enterprise is formed) and finally the international event (which is when an enterprise enters an

international market and because they are rapid internationalising enterprises, this stage will occur quite quickly).

Non-internationalising enterprises will experience only entrepreneurial events and possibly pre-internationalisation activities but not the internationalisation events.

Figure 3.4: Entrepreneurial internationalisation model

Chronological time (calendar years)



Source: Styles and Genua (2008:148)

The differences that the authors noted between the internationalising and non-internationalising enterprises were that the latter employed individuals with a managerial background to complement their technical skills. Non-internationalising enterprises were engaged in technology development that was outside their academic field and as such did not have fundamental networks, while internationalising enterprises developed technology in their own field and had already developed strong ties locally and internationally by the time they presented themselves in conferences, for example.

Further, the study used autonomy, innovation, risk-taking, proactiveness and competitive aggression as dimensions of entrepreneurial orientation. The study ascertained that technological innovativeness, risk-taking and certain elements of autonomy assisted in the establishment of enterprises developed through the commercialisation of academic research, but they did not necessarily influence the internationalisation of enterprises as internationalising and non-internationalising enterprises did not differ in this respect. However, proactiveness and product-market innovation are viewed as being important for both the establishment and internationalisation of enterprises as internationalising enterprises displayed more proactiveness and exhibited more product-market innovativeness than non-internationalising enterprises. Competitive aggressiveness did not have any substantial impact on the establishment or internationalisation of enterprises.

The emergence of INVs can therefore be attributed predominantly to entrepreneurial enthusiasm as that is the factor that enables the owner-manager to avail himself of and utilise resources profitably to make internationalisation feasible and to expedite it.

Malhotra and Hinings (2010:331-336) acknowledge the importance and relevance of interrogating the internationalisation process models because of the wide range of organisations embarking on internationalisation. In the authors'

views the process models are still a topical debate but the focus on whether the process is incremental or not is no longer a theoretically fruitful argument. According to the authors the different models all support the fact that internationalisation processes differ so the emerging area of interest should be to determine why that is so and why the processes consequently result in different approaches to resource commitment in the foreign market over time. In an attempt to understand why the processes on internationalisation differ the authors proposed an organisational model. According to the organisational model the organisational characteristics of an internationalising enterprise influences its internationalisation process. The three organisational characteristics having a direct bearing on the production and delivery of a product or service relates to the extent of the enterprise's inclination to the following:

- Nature of production activity, that is, whether an enterprise's product is standardised or customised.
- Nature of dominant asset, that is, whether the enterprise is capital intensive or labour intensive.
- The degree of centrality of the customer/client, that is, the extent of participation of the customer/client in the production of a product or service.

All three organisational characteristics according to the authors lie on the continuum hence there will be enterprises at the two extremes while there will be those that are in the middle. The three characteristics have implications for the way in which the production of each enterprise would be organised resulting in three types of enterprises, namely, the mass production enterprise, the disaggregated production enterprise and project-based enterprise. The organisation and differentiating characteristics of the three types of enterprises are shown in table 3.1 below.

The proposed organisational model is depicted in figures 3.5 and 3.6. First, figure 3.5 demonstrates that each organisation type, depending on the nature of production, nature of dominant assets and centrality of clients, will influence

elements of the internationalisation process and ultimately the choice of the modal path that will emerge over time.

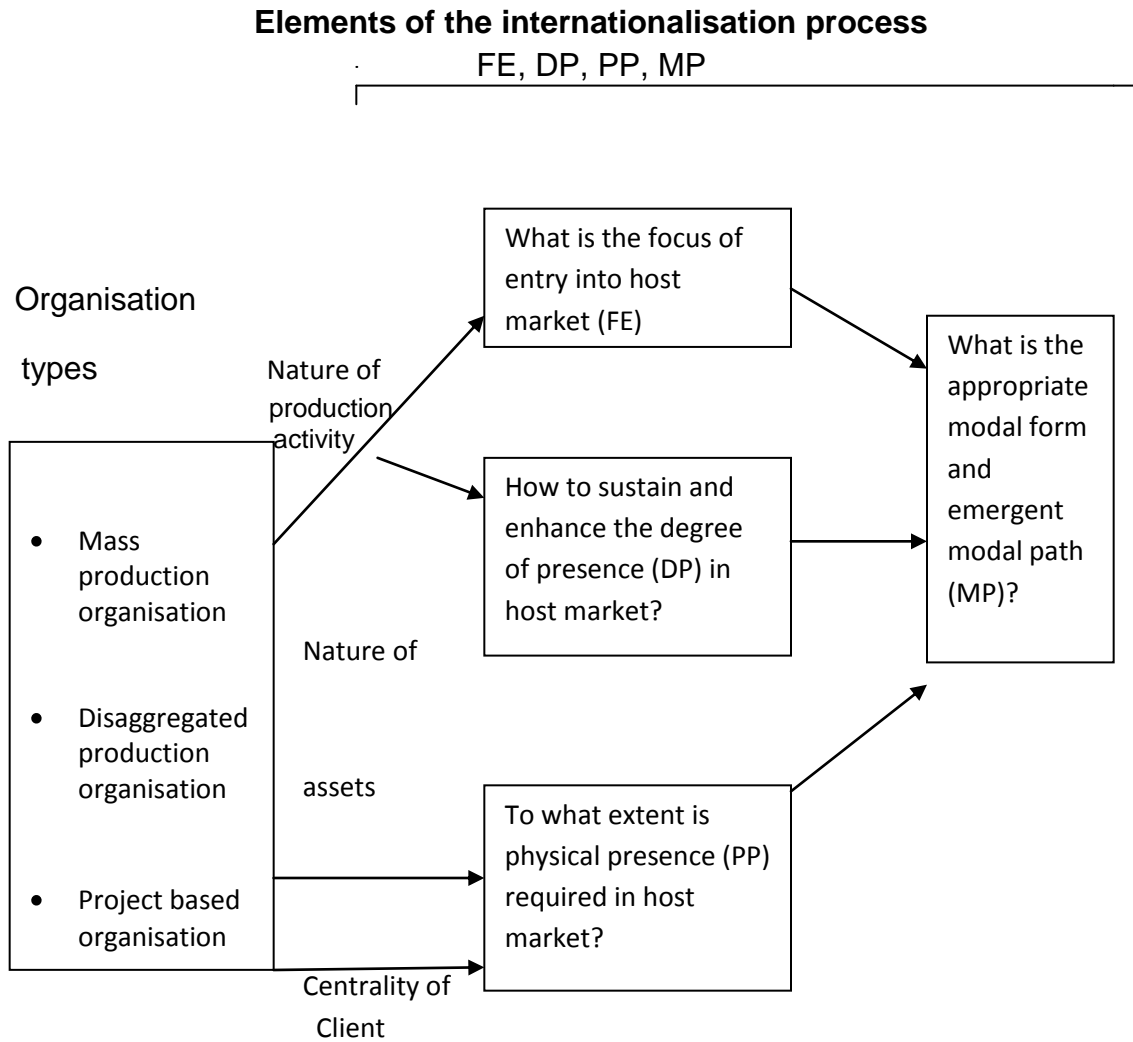
Table 3.1: Three enterprise organisation types based on the three differentiating characteristics.

Enterprise organisation type	Differentiating characteristics		
	Nature of production activity	Nature of dominant asset	Degree of centrality of client
Mass production organisation	Mass production	Least people intensive	Low
Disaggregated production organisation	Disaggregated production	Moderately people intensive	Medium
Project-based organisation	Project-based production	Highly people intensive	High

Source: Malhotra and Hinings (2010:336)

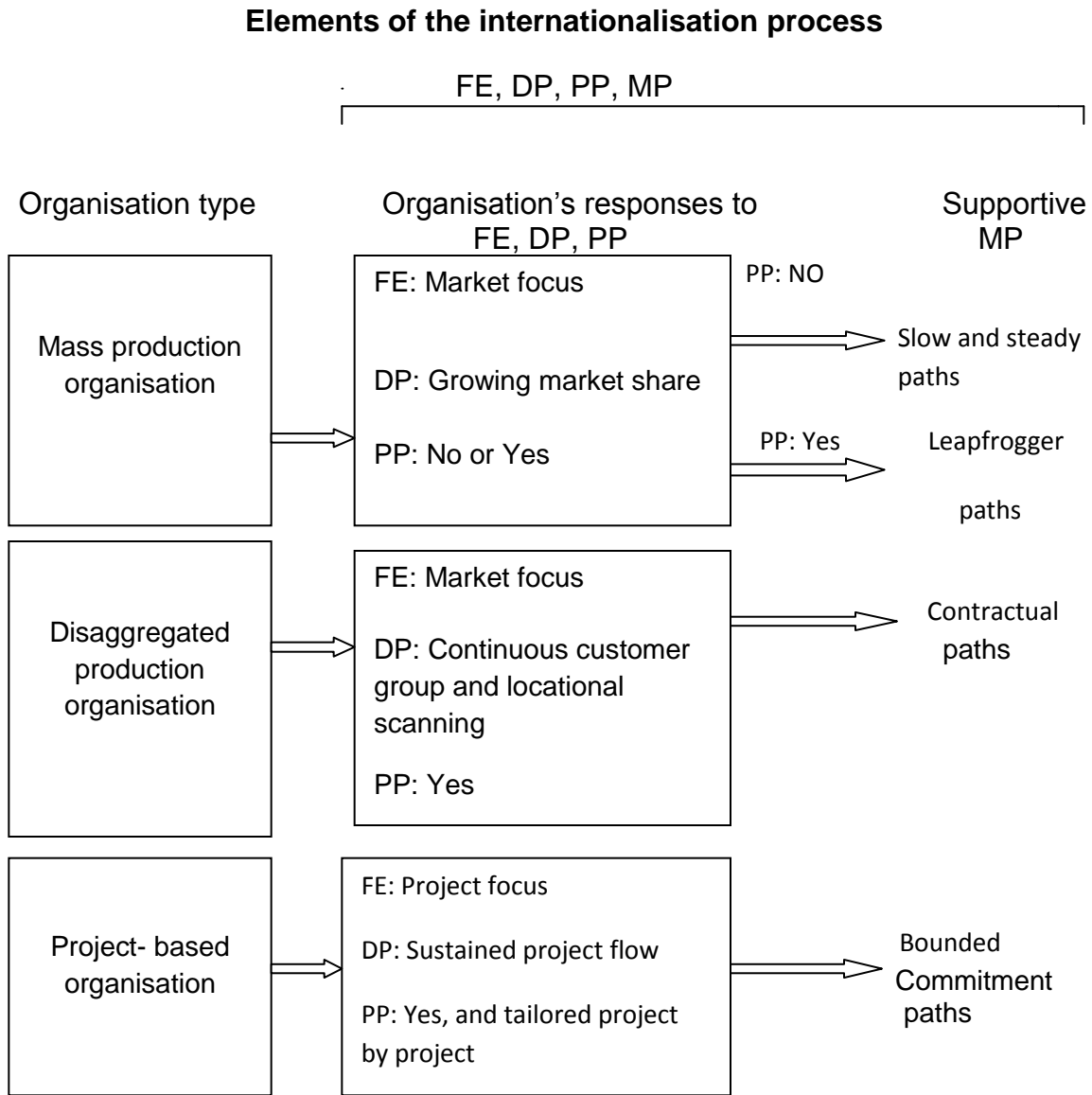
Figure 3.6 illustrates that the different modal paths, which will be either slow and steady, leapfrogger paths, contractual paths or bounded commitment paths, will be guided by the organisation's responses to the focus on entry, degree of presence and desired physical presence. A number of considerations inform the enterprises modal choice as the process of internationalisation progresses (Malhotra & Hinings, 2010:338).

Figure 3.5: Organisation type and internationalisation process



Source: Malhotra and Hinings (2010:337)

Figure 3.6: Organisation type and internationalisation process: detailed model.



Source: Malhotra and Hinings (2010:337)

NB: FE, focus on entry; DP, degree of presence; PP, physical presence; MP, modal path

3.3. INTERNATIONAL ENTRY MODE

An entry mode is an institutional arrangement chosen by an enterprise to operate in a foreign market (Kumar & Subramaniam, 1997:2). According to Sun (1999:642), entry modes are forms of capital participation in international enterprises, that is, the ownership structure of a foreign subsidiary. An entry mode is therefore an arrangement in which foreign operations are governed and financed.

An enterprise can enter into a foreign country by exporting goods to that country or by production in the host country. There are different forms of exporting and host production (Douglas & Craig, 1995:26; Griffin & Pustay, 2005:342; Ball et al., 2006:430-431) (see table 3.2).

Table 3.2: Modes of foreign entry

Exporting	
<ul style="list-style-type: none"> • Indirect exporting • Direct exporting 	
Host production	
<ul style="list-style-type: none"> • International licensing 	
<ul style="list-style-type: none"> • International franchising 	
<ul style="list-style-type: none"> • Specialised modes 	<ul style="list-style-type: none"> • Contract manufacturing • Management contract • Turnkey projects
<ul style="list-style-type: none"> • Foreign direct investment 	<ul style="list-style-type: none"> • Greenfield • Acquisition • Joint venture

Source: Griffin and Pustay (2005:342)

3.3.1. Exporting

Exporting is a mode of internationalisation where a final or intermediate product exported to the target market is manufactured outside the target market and subsequently transferred to it directly or indirectly (Douglas & Craig, 1995:26; Osland, Taylor & Zou, 2001:154). In indirect exporting the manufacturer sells its products to domestic enterprises and in turn the domestic enterprises export the product in either its original form or a modified form (Griffin & Pustay, 2005:348; Albaum, Duerr & Strandskov, 2005:253; Ball et al., 2006:431). In direct exporting, however, the responsibility for performing international sales activities lies in the hands of the manufacturer (Roots, 1994:158; Czinkota, Ronkainen & Moffett, 2005:357; Griffin & Pustay, 2005:348; Albaum et al., 2005:253; Ball et al., 2006:431).

3.3.2. International licensing

International licensing is a non-equity, contractual mode of entry where an internationalising enterprise (called a licensor) transfers to one or more enterprises (called a licensee) in a target market, for a defined period of time, the right to use some or all of the following: property, patents, trademarks, enterprise name, technology, and/or enterprise methods in return for an initial fee and/or percentage of sales to the licensor (Douglas & Craig, 1995:27; Osland et al., 2001:154; Czinkota et al., 2005:364; Albaum et al., 2005:254). According to Douglas & Craig (1995:27) and Ball et al. (2010:447-451) non-equity modes of entry differ from equity modes in that non-equity modes involves the transfer of technology or human skills between an enterprise in a foreign target market and the enterprise entering the foreign market meaning that there would not be any equity investment from an international enterprise.

3.3.3. International franchising

International franchising is an internationalisation approach whereby an independent enterprise called the franchisee is allowed to operate an enterprise under the name of another called the franchisor, in return for a fee (Griffin & Pustay, 2005:358; Ball et al., 2006:434). Franchising is closely related to licensing, but differs with regard to:

- Duration: Franchising tends to involve much longer term commitments than licensing does (Douglas & Craig, 1995:27; Hill, 2007:490).
- Preference by sector: Unlike licensing that is pursued by manufacturing enterprises, franchising agreements are common in service enterprises (Doherty, 2007:184; Hill, 2007:490).
- Support: Almost always, the franchisor helps the franchisee establish the enterprise and assists in the organisation, marketing and general management on an ongoing basis; this support is not common in licensing agreements (Griffin & Pustay, 2005:358; Hill, 2007:490).
- Control: In contrast to most licensing agreements, enterprises that use the assets of another enterprise, as in the case of a franchising agreement, consent to the owner's strict rules of conducting business (Griffin & Pustay, 2005:358; Ball et al., 2006:434; Hill, 2007:490).

3.3.4. Contract manufacturing

Contract manufacturing involves entering into foreign markets without investing in plant facilities. An internationalising enterprise contracts production out to a local manufacturer to produce products for it according to its specifications and only performs the marketing function (Roots, 1994:159; Griffin & Pustay, 2005:359; Ball et al., 2006:439).

3.3.5. Management contract

Management contract is an agreement whereby an enterprise provides managerial assistance in some or all functional areas to one or more overseas enterprises for some agreed upon time in return for monetary compensation (Griffin & Pustay, 2005:359; Ball et al., 2006:437).

3.3.6. Turnkey projects

According to Hill (2007:488), in turnkey projects the contractor agrees to handle every detail of the project for the purchaser in the foreign country. For instance, in the case of plant construction, the contractor would design, construct and equip a facility and could even train the operating personnel of the purchaser and finally hand the purchaser the key to the plant that is ready for full operation. Owusu, Sandhu and Kock (2007:695) define a turnkey project operation as the process of developing, marketing and implementing technical–economic solutions to a purchaser’s needs. International turnkey projects often involve large, complex and expensive production technologies such as a nuclear power plant, an oil refinery, or an airport construction (Griffin & Pustay, 2005:359; Hill, 2007:488; Owusu et al., 2007:698).

While Hill (2007:488) regards turnkey projects as a specialised kind of exporting, Owusu et al. (2007:697) consider such projects as being a distinct internationalisation mode rather than a form of exporting. The main distinguishing characteristics of a turnkey project according to Owusu et al. (2007:698-699) and Nicholas (2004:4), are:

- Discontinuity: this indicates that on completion of the set task the organisation is disbanded or reconfigured to begin work on a new goal.
- Uniqueness: Every turnkey project requires doing something different from that which was done previously making it a one-time activity never to be exactly repeated again. Nicholas (2004:4) notes that even in routine projects

such as home construction, the variables (e.g. terrain, access, zoning laws and utilities) render each construction different.

- Complexity: Projects, according to Nicholas (2004:4), cut across organisational lines because they need skills and talents from multiple professions and organisations. Hence, as Owusu et al. (2007:698) maintain that putting together interrelated products and systems and having to manage diverse units is complicated.
- Financial commitment refers to the huge financial cost of the project to the purchaser.

3.3.7. Greenfield

Greenfield involves starting a new operation from scratch. An internationalising enterprise buys or leases land in a foreign country, then it constructs new facilities, hires and/or transfers in managers and employees and finally launches the new operation (Root, 1994:168; Griffin & Pustay, 2005:361).

3.3.8. Acquisition

Acquisition entails entry into a foreign country through acquiring an existing operation in the host country (Root, 1994:168; Griffin & Pustay, 2005:361).

3.3.9. Joint ventures

According to Griffin and Pustay (2005:362), joint ventures constitute a form of foreign direct investment whereby two or more enterprises agree to work together and create a jointly owned separate enterprise to promote their mutual interests. The owners of the joint venture share ownership, management, risk and rewards of the newly formed entity. Each partner contributes equity that may take the form of money, plant, equipment and/or technology (Osland et al., 2001:154; Czinkota et al., 2005:371; Albaum et al., 2005:254).

3.4. INTERNATIONAL ENTRY MODE SELECTION

The selection of an entry mode is one of the critical elements of any international strategy (Ekeledo & Sivakumar, 1998:274; Koch, 2001:65; Phatak et al., 2005:220; Blomstermo, Sharma & Sallis, 2006:212; Carpenter & Sanders, 2009:300). An entry mode is crucial because it determines the future decisions and operations of an enterprise in the foreign country, especially those involving long-term contracts and/or large resource commitments because they would be difficult to change in the short term (Kumar & Subramaniam, 1997:54; Ekeledo & Sivakumar, 2004:68). Foreign entry mode decisions are also important given that they are critical determinants of success of foreign operations, since they enable enterprises to gain a competitive advantage (Osland et al., 2001:153).

According to Douglas and Craig (1995:23), there are five elements of an international market entry strategy, namely:

- The choice of a target product/market;
- The objectives and goals in the target market;
- The choice of an entry mode to penetrate the target market;
- The marketing plan to penetrate the target market; and
- The control system to monitor performance in the target market.

According to Douglas and Craig (1995:23), the elements of a market entry strategy are iterative with many feedback loops which inform the decision as the process evolves.

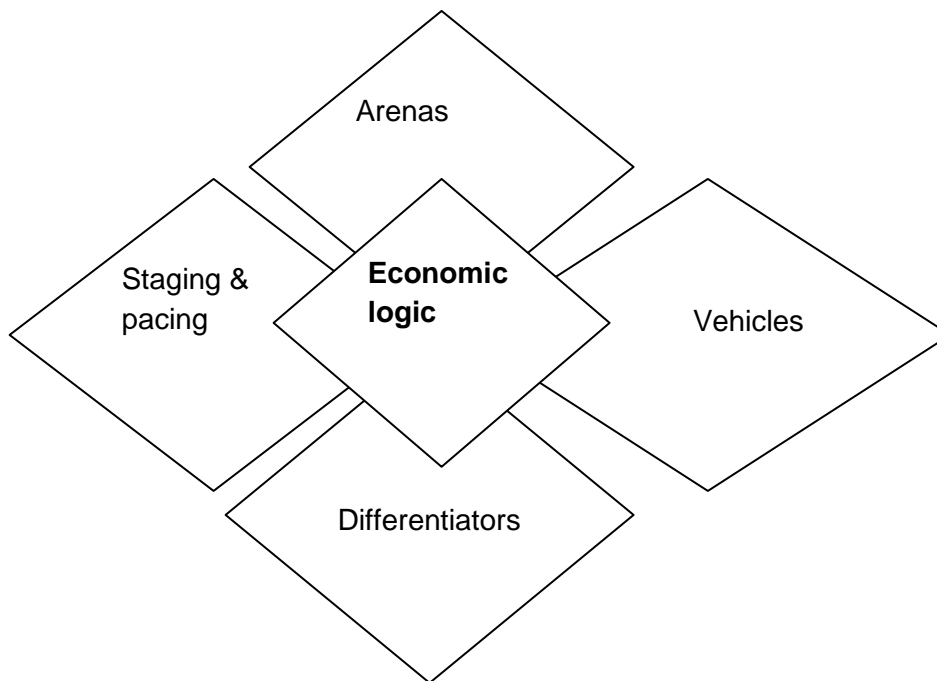
Carpenter and Sanders (2009:38) also identified five elements of the business strategy, which they crafted into what they termed the strategy diamond (see figure 3.7)

- An arena is defined as the areas in which an enterprise will be active. Decisions about an enterprise's arenas include its products, services,

distribution channels, market segments, geographic areas, technologies and even stages of the value-creation process.

- Vehicles are means for participating in targeted arenas commonly referred to as entry modes.
- Differentiators are the attributes that set an enterprise above its competitors. This includes image, technical superiority, price or quality.

Figure 3.7: The business strategic diamond



Source: Carpenter and Sanders (2009:39)

- Staging refers to the timing and pace of strategic moves. According to the authors staging decisions are driven by resources, urgency, credibility and the need for early wins.
- Economic logic refers to the means by which the enterprises will earn a profit by implementing a strategy. The four elements of the strategy are sound only if their combination yields a profit to a for-profit enterprise.

According to Carpenter and Sanders (2009:38), in formulating a business strategy it would be naïve to focus on only one element of the strategy diamond

as that will not result in a strategy that is integrated. That said, it means a good international strategy is one that is reflected in all the facets of the strategy diamond. That is, an international strategy has to determine the arenas in which an enterprise will operate, why it intends to explore those areas and how it will enter those arenas. As indicated earlier, the vehicle (how enterprises enter new markets) is the critical element of an enterprise's strategy.

Further, noting that all entry modes possess advantages and disadvantages (see summary in table 3.3), the enterprise's choice of entry mode for a given product/target country is a complex process with numerous trade-offs (Douglas & Craig, 1995:28; Hill, 2007:493).

For instance, Hill (2007:493) indicates that enterprises that are considering entry into an unfamiliar country with a track record for discriminating against foreign-owned enterprises when awarding contracts, may favour a joint venture with a local enterprise instead. The rationale being that in a joint venture, the local partner will help the enterprise to establish operations in an unfamiliar environment as well as win government contracts. However, if the core competence of the enterprise is based on proprietary technology, it might risk losing control of its technology to the joint-venture partner, in which case the strategy may appear unattractive.

Agarwal and Ramaswami (1992:20) assessed the joint effects of ownership, location and internalisation advantages on entry mode selection. Location advantages refer to the market potential and country risk that render operating an enterprise in a foreign market profitable (Ekeledo & Sivakumar, 2004:72). Internalisation advantages refer to the risk that could arise from trade transactions (Dunning, 1988:3; Ekeledo & Sivakumar, 2004:72). Ownership advantages refer to competitive monopolistic advantages that assist a foreign enterprise to overcome the disadvantages of competing with host enterprises (Ekeledo & Sivakumar, 2004:72). The authors determined that:

- Exporting is preferred to no involvement if enterprises have the ability to develop differentiated products and if contractual risks are high. Exporting would also be preferred to a joint venture and wholly-owned subsidiary (WOS) if contractual risks are high. In general, according to the authors, a preference for exporting is found to be relatively low in high potential marketing areas, indicating that high return/high risk investment modes are better modes in such markets.
- Joint ventures are preferred in high potential markets that have low contractual and investment risks. However, enterprises that have the ability to develop differentiated products would prefer joint ventures even when contractual and investment risks are high.
- WOSs are preferred by large multinational enterprises (MNEs) who do not desire to use joint ventures in markets with high potential. As in joint ventures, enterprises would not favour WOS when contractual and investment risks are high even if the market potential is high but when such enterprises possess a greater ability to develop differentiated products they would choose WOSs. It means product differentiation is a source of competition and the size of an enterprise is irrelevant.

Bell et al.'s (2003:348) comparison of traditional and INVs (both born global and born-again global enterprises) (see table 3.4.) found that the staging and pacing of internationalisation seem not to influence the entry mode at initial entry but enterprises differed in terms of modes used in the long run. The authors observed that all enterprises (traditional and INVs) entered foreign markets in a relatively cautious manner, mainly through exporting, even though born global and born-again global enterprises ultimately invest in foreign markets. Traditional enterprises on the other hand tend to use exporting modes of entry on a permanent basis.

Table 3.3: Advantages and disadvantages of entry modes

Entry modes	Advantages	Disadvantages
Exporting	<ul style="list-style-type: none"> • Requires fewer resources • Ability to achieve experience curve and location economies 	<ul style="list-style-type: none"> • High transport costs • Trade barriers • Problems with local agents
Licensing	<ul style="list-style-type: none"> • Low development costs and risk associated with opening a foreign market • Overcoming barriers to FDI • Allows enterprises to learn the new market without significant commitment of financial and managerial resources 	<ul style="list-style-type: none"> • Lack of control over technology • Inability to engage in global strategic coordination • Inability to realise location and experience curve economies • Non adherence to agreements may lead to costly and tedious litigation that may hurt both parties • Builds up potential competition • Restricts future market development
Franchising	<ul style="list-style-type: none"> • Low development costs and risk • Taps local managerial talent 	<ul style="list-style-type: none"> • Inability to engage in global strategic coordination • Lack of quality control
Contract manufacturing	<ul style="list-style-type: none"> • Offers substantial flexibility • Low manufacturing costs • Avoids tariff barriers 	<ul style="list-style-type: none"> • Lack of control over technology • Might face quality control problems • The manufacturer might fail to meet delivery standards

Source: Root (1994:156-169); Hill (2007:486-495); Griffin and Pustay (2005:348-362)

Table 3.3: cont. Advantages and disadvantages of entry modes

Management contract	<ul style="list-style-type: none"> • additional revenues without investment risks 	
Turnkey projects	<ul style="list-style-type: none"> • Ability to earn returns from process technology skills in countries where FDI is restricted • The strategy is less risky compared to conventional FDI 	<ul style="list-style-type: none"> • There is a possibility that the foreign enterprise that solicited the services could turn out to be an efficient competitor • Lack of long-term market presence is a problem especially if the country in which the project was done turns out to be the major market for the output of the process that had been acquired through the project approach
WOS (Greenfield or acquisitions)	<ul style="list-style-type: none"> • Protection of technology • Ability to engage in global strategic coordination • Ability to realise location and experience economies • An enterprise gets 100 percent share in the profits generated in a foreign market 	<ul style="list-style-type: none"> • An enterprise bears the full capital costs and risks of setting up overseas operations making this the most costly method of serving a foreign market
Joint ventures	<ul style="list-style-type: none"> • Access to local partner's knowledge • Sharing development costs and risks with the local partner • Might be the only politically acceptable entry mode option 	<ul style="list-style-type: none"> • Lack of control over technology • Inability to engage in global strategic coordination • Inability to realise location and experience economies • There is a possibility that conflicts and battles for control between investing enterprises could arise

Source: Root (1994:156-169); Hill (2007:486-495); Griffin and Pustay (2005:348-362)

Table 3.4: A comparison of internationalisation modes for traditional and born global enterprises

	Traditional	Born global enterprises	Born-again global enterprises
Expansion patterns	Incremental <ul style="list-style-type: none"> • Domestic expansion first • Focus on psychic markets • Low-tech/less sophisticated markets targeted • Limited evidence of networks 	Concurrent <ul style="list-style-type: none"> • Near-simultaneous domestic and export expansion (export may precede domestic market activity) • Focus on lead markets • Some evidence of client followership • Strong evidence of networks 	“Epoch” of domestic orientation, followed by rapid internationalisation <ul style="list-style-type: none"> • Focus on parent enterprise’s networks and overseas markets • Strong evidence of client followership
Pace	Gradual <ul style="list-style-type: none"> • Slow internationalisation (small number of markets) • Single market at a time • Adaptation of existing offering 	Rapid <ul style="list-style-type: none"> • Speedy internationalisation (large number of markets) • Many markets at once • Global product development 	Late/rapid <ul style="list-style-type: none"> • No international focus then rapid internationalisation • Several markets at once • Adaptation/new product development
Methods of distribution/entry modes	Conventional <ul style="list-style-type: none"> • Use of agents/distributors or wholesalers • Direct to customers 	Flexible <ul style="list-style-type: none"> • Use of agents or distributors • Also evidence of integration with client’s, channels, use of licensing, joint ventures, overseas production 	Networks <ul style="list-style-type: none"> • Existing channel/s of new parent, partner/s or client

Source: Bell et al. (2003: 346-347)

Most conclusions drawn from the mode of entry selection arose from the context of manufacturing enterprises so it is questionable whether they could be generalised to service enterprises; hence certain studies tested whether being in the arena of services as opposed to products influences the international entry mode (Erramilli & Rao, 1990:40; Ekeledo & Sivakumar, 1998:274; Blomstermo, Sharma & Sallis, 2006:212). In investigating the service enterprise foreign entry mode selection, it was observed that services needed to be classified into some kind of scheme to reduce their heterogeneity (Erramilli & Rao, 1990:40; Blomstermo, Sharma & Sallis, 2006:212). The authors adopted the classification scheme of soft-service and hard-service enterprises. Soft-service enterprises refer to enterprises that market services that do not permit decoupling of consumption and production (e.g. healthcare) while hard-service enterprises market services for which it is highly feasible to separate production and consumption (e.g. software enterprises). In other words, the soft services are location bound and need to be delivered in real time with both the supplier and consumer present during the performance. Hard services, on the other hand, can be mass-produced in anticipation of demand and the supplier need not be present at the time of consumption.

Blomstermo et al. (2006:212) determined that the selection of a foreign entry mode in service enterprises is influenced by their differences and that the generalisability of the research findings from manufacturing sector to service sector enterprises only apply to a certain type of service. The authors found that:

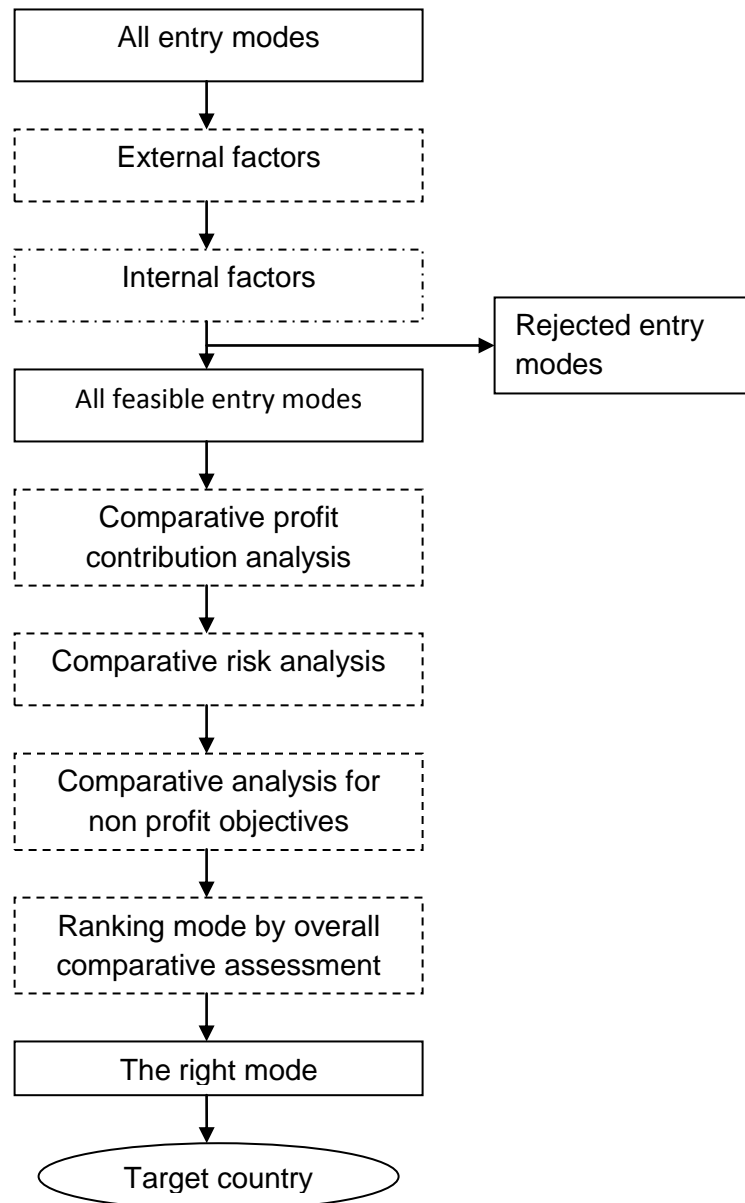
- Soft-service enterprises preferred higher control entry modes than hard-service enterprises did.
- The service enterprises are more likely to choose a high control entry mode over a low control entry mode if they invest in a country that is culturally distant from their origin.
- The entry mode selection theories of the manufacturing origin are generalisable to hard services but soft services have unique aspects that are still not fully explained by the findings of manufacturing contexts.

Using data from the United States service enterprises Erramilli and Rao (1990:147) established that service enterprises exhibit significantly greater aggressiveness in choosing entry modes when following their existing clients than when entering foreign markets to serve new customers. Client followers tend to opt for the WOS mode of entry into foreign markets. The authors determined that hard-service enterprises like manufacturing enterprises displayed a preference for exporting.

Having so many variables to include in the equation and difficulties in measuring their strength and projecting their direction over a future planning period leaves owner-managers in a dilemma with regard to choosing an optimal entry mode (Douglas & Craig, 1995:28). The authors point to three decision rules that can be followed in choosing an entry mode.

First is the naïve rule where an enterprise would use the same entry mode for all foreign markets. Second is the pragmatic rule that is characterised by the use of a low-risk entry mode, which is almost always the exporting mode. Lastly is the strategic rule, which aims to choose the entry mode that maximises the profit contribution over the strategic planning period within the constraints imposed by: 1) the availability of enterprise resources; 2) risk; and 3) non profit objectives. While Douglas and Craig (1995:187) acknowledge that the entry decision process cannot be reduced to a formula because of the numerous conflicting forces that have to be taken into account, it offers an approach that facilitates a systematic comparison of alternative modes (see figure 3.8). This approach suggests that firstly, owner-managers should review all entry modes for feasibility with respect to the foreign target country/market and with respect to the resources and commitment of the enterprise. Subsequently, they should compare the feasible modes on the basis of profit, risk and non profit objectives.

Figure 3.8: Steps in choosing the right entry mode



Source: Douglas and Craig (1995:187)

Johansson (2006:174) attempted to identify the optimal entry mode on the basis of enterprise and market factors and derived an optimal entry mode matrix (see table 3.5).

Table 3.5: An optimal entry mode matrix

Strategic posture	Product/market situations			
	Emerging	High-growth	Mature	Services
Incremental	Indirect exports	Indirect exports	Direct exports	Licensing /alliance
Protected	Joint venture	Indirect exports	Alliance /licensing	Licensing
Control	WOS	WOS/alliance	WOS	Franchising/alliance/ exporting

Source: Johansson (2006:174)

Firstly, Johansson (2006:174-176), grouped enterprise factors into three strategic postures, namely, incremental, protected and control. Incremental posture relates to the resource-poor entrant that wants to stay flexible for the future. Protected posture refers to an enterprise with strong and protected know-how, but without a very keen interest or skills in foreign markets. Control posture refers to a resource-rich enterprise that is interested in global expansion and control over production and marketing in various countries. It was accepted that market factors would differ in emerging economies, high-growth markets and mature markets and therefore they were viewed as different market situations. Services were treated separately.

The matrix demonstrates that an incremental enterprise uses the exporting mode in every market situation; the protected enterprise tends to use exporting only in high growth markets otherwise it resorts to joint ventures and licensing while the control enterprise prefers WOSs but could also use alliances in high-growth markets. The service enterprises mostly prefer contractual modes, that is, licensing and franchising, even though they could use exporting when they possess adequate resources.

While Hill (2007:494-495) also drew the attention to possible generalisations about the optimal choice of entry mode, he does not fully agree with Johansson's (2006:174) suggestions. According to the author, the decision for an optimal entry mode is guided by the nature of the enterprise's core competencies and pressures for cost reductions. The author draws a distinction between enterprises whose core competencies fall under technological know-how and those whose core competencies fall under management know-how. The author argues that licensing and joint venture arrangements should be avoided because they expose enterprises to the risk of losing control over their technology, except in situations when an enterprise perceives its technological advantage to be only transitory, because it expects rapid imitation from competitors. In such a case, it would be preferable to license out the technology to gain global acceptance before imitation occurs. According to the author, the preferred mode for enterprises whose core competencies are technological know-how, is WOS, as the attractions of licensing are frequently out-weighed by the risks of losing control over technology.

Further, Hill (2007:495) indicates that enterprises whose core competencies are management know-how, commonly service enterprises, and would favour a combination of franchising, WOSs and/or joint ventures. The risks of losing control over technology, according to Hill (2007:495) is not great because the valuable asset of service enterprises is their brand name which is normally protected by international laws pertaining to trademarks.

Regarding the influence of pressures on cost reduction to the entry mode, Hill (2007:495) notes that when enterprises face great pressure to reduce costs, they are likely to use a combination of exporting and WOSs by manufacturing in locations where factor conditions are optimal and then export to the rest of the world.

Literature indicates that the exporting mode is the most popular form of internationalisation. This is so because, as opposed to other modes of foreign market entry, it requires less commitment of organisational resources, offers

flexibility of managerial actions, and involves fewer business risks (Katsikeas & Morgan, 1994:17; Leonidou, 1995:4; Halikias & Panayotopoulou, 2003:340; Albaum et al., 2005:253; Leonidou et al., 2007:736). Osland et al. (2001:156), while supporting exporting as the most frequently used foreign entry mode, realised in their comparative study between USA and Japanese manufacturing enterprises that the use of joint ventures and WOSs (investment modes) when combined exceeded the use of an exporting mode. Licensing was the mode that was least often selected; therefore exporting and investment modes appear to be the more competitive options. It appears that exporting and investment modes are preferred to contractual modes.

3.5. EXPORTING VERSUS INVESTMENT MODES

Head and Ries (2004:415-417) identified some of the reasons that motivate enterprises to progress from exporting to investment modes or to choose between exporting and investment modes. Firstly, according to the said authors, enterprises will shift from exporting to production because of market crowding effects. The authors argue that if all enterprises started serving a foreign market by exporting, the prospective profits would decline for the next enterprise that produced locally and exported. However, if at the same time there is a fall in fixed costs at plant level, then it would be more profitable for some enterprises to engage in FDIs while maintaining their home plants to serve their home markets. Enterprises with home plants will continue to switch to FDIs as long as the additional benefits of overseas production associated with avoiding trade costs exceed the fixed costs of operating a second plant. Secondly, they point out that the differences in productivity influence decisions regarding the selection of the type of entry mode. For instance, the least productive enterprises serve only the domestic market and the relatively more productive enterprises export, while the most productive enterprises engage in FDIs. This also explains why individual enterprises simultaneously engage in FDIs and exporting, as enterprises with a certain level of productivity are forced to export to destinations with high fixed costs and carry out FDIs in low fixed cost markets. Lastly, it is evident that enterprises with multiple products can use different entry modes for each

product. The said authors note that where an individual enterprise offers products that are horizontally related, an enterprise can export one and engage in an FDI for another in order to avoid cross product cannibalisation. The co-existence of exports and FDIs within an enterprise that offers multiple products may also arise because demand for a product supplied by foreign production could lead to an increased demand for other goods produced by the same enterprise – of which some could be supplied through arm's length trade.

However, as some enterprises move to FDIs they actually abandon the exporting mode, which would occur in cases where an FDI is undertaken to serve the same market with the same product that was being exported. Blonigen (2001:99), using product-level data of selected Japanese automobile parts and final consumer products, established a negative relationship in Japanese enterprises between their USA production and their export counterparts, that is, as Japanese enterprises changed from exporting to the USA to investment in that country, their exports of the same products declined.

According to Amiti and Wakelin (2003:102), whether an FDI promotes trade or substitutes trade depends on the type of FDI stimulated. FDIs can be vertically integrated – where multinationals split stages of production geographically having their headquarters in the source country and their final assembly plant in the host country. FDIs can also be horizontally integrated – where multinational enterprises produce their final goods in multiple locations and have their headquarter services in the source country and their final assembly plants in both the host and the source country. Vertical FDIs are expected to stimulate trade, whereas horizontal FDIs are expected to substitute trade (Head & Ries, 2001:118, 2004:414; Amiti & Wakelin, 2003:120).

Using bilateral data flows between 36 countries encompassing OECD and developing countries, Amiti and Wakelin (2003:120) unravelled both the positive and negative effects of FDIs on export. According to the results, investment liberalisation promoted exports in 70 percent of the observations, while in the remaining 30 percent of the observations, investment liberalisation reduced

exports. The authors determined that investment liberalisation stimulated exports when countries differed in terms of relative skills endowments coupled with low trade costs, as this tended to stimulate vertical FDIs. Investment liberalisation reduced exports when countries were similar in terms of relative skills endowments and trade costs were high because horizontal FDIs were expected to dominate. The relationship between FDIs and export according to Amiti and Wakelin (2003:120) is not static; it changes with country characteristics and trade cost adjustments.

Kneller and Pisu (2004: 425) also recognise that the behaviour of multinationals is not consistent with the traditional theory of FDIs that suggests that enterprises invest in foreign production facilities in order to avoid the cost of international trade, thus rendering FDIs and exports as alternatives rather than complementary to serving foreign markets. Hogenbirk and van Kranenburg (2006:54) acknowledge the changing role of subsidiaries in host markets from that of import-substitution to export-oriented in the multinational group's global network.

An export-oriented FDI is defined as an establishment of production facilities in a foreign country and the use of part or all of the output from these facilities are used to serve a third country meaning that there will be no flow of finished products from the foreign plant back to the home country (Kneller & Pisu, 2004:426).

Yeaple (2003:294-297), in accord with Amiti and Wakelin (2003:102), note that multinationals that wish to exploit factor price differences across countries adopt vertical integration, while those that wish to avoid the cost of international trade implement horizontal integration. When transport costs (used as proxy for international trade costs) are low, vertical FDIs are induced because low transport costs render low labour costs in other regions attractive while high transport costs encourage horizontal FDIs as international trade becomes expensive. According to Yeaple (2003:295), when transport costs lie between these two extremes, neither the vertical nor the horizontal motive is by itself

sufficient to encourage enterprises to invest abroad. Hence, FDIs are only viable when enterprises take advantage of the complementarity between different destinations by investing in both. Yeaple (2003) termed this hybrid approach a complex integration. Nielsen and Pawlik (2007:604-605) concur that multinational enterprises are changing from horizontal and vertical modes of organisation to hybrid forms such as export-platform FDIs. The authors note that horizontally integrated multinationals establish affiliates similar to their production plants at home for the purpose of selling solely to the host market. In contrast, vertically integrated multinationals split up the value chain, with fragments situated in those countries whose local factor endowments fit the factor requirements of the production process best. Export-platform FDIs, however, use the host country as an export base serving different countries.

From the discussion on the internationalisation of enterprises, it is apparent that no single model can fully explain their internationalisation behaviour, but internationalisation itself can best be described by means of an integrated perspective of different models as models provide complementary rather than distinct views on the concept of internationalisation (Yakhlef & Maubouguet, 2004:202; Spence & Crick, 2006:528). Spence and Crick (2006:528-529) further maintain that research focus on the internationalisation of enterprises should be directed at determining the critical factors that influence managers' international decisions and their relative importance. The authors conclude that what is important in the internationalisation decision is to determine the way in which individual entrepreneurs and management teams identify and exploit opportunities rather than generalising the internationalisation process from large scale studies that do not account for the particular conditions faced by respective decision-makers.

3.6. CONCLUSION

The internationalisation of enterprises is a strategic choice made by enterprises that wish to access the benefits of globalising markets. The Uppsala model, FDI theories and Network theories are traditional models used to explain the

internationalisation of enterprises. The Uppsala model, sometimes also called the stage model, described internationalisation as a gradual process corresponding to experiential knowledge and resource commitment. FDI theories define internationalisation as a display of enterprise-specific advantages over local enterprises, while network theory regards internationalisation as the ability of enterprises to exploit international advantages from business relationships, which help it to decrease foreign market uncertainties. The limitations of the traditional models in explaining new internationalisation behaviours displayed by enterprises triggered new explanations that arose from the international business/entrepreneurship interface. The emerging models consider internationalisation as an entrepreneurial act where an entrepreneur is a central focus, who interprets knowledge gleaned from all sources, including networks, in order to identify internationalisation opportunities. As there appears to be some consensus that the internationalisation process differs as explained by different models, it is argued that a focus on whether the process is incremental or not is no longer a theoretically viable debate; hence most recent models are shifting towards explaining why the process differs. An organisational model is one such model. It ascribes the differences in the internationalisation process to differing enterprise characteristics; hence the different modes of internationalisation.

Enterprises can enter foreign markets in a variety of ways, namely exporting, international licensing, international franchising, contract manufacturing, management contract, turnkey projects, wholly owned subsidiaries (Greenfield or Acquisition) and joint ventures. The selection of an entry mode is a critical element of the international strategy that involves trade-offs between various factors. Exporting, however, is regarded as the most preferred mode of foreign entry, but when investment modes (joint ventures and WOS) are combined, they appear to be more common. The choice for entry into foreign markets for enterprises seems to be between exporting and WOS. The next chapter discusses exporting with an emphasis on the export development process and export barriers encountered by enterprises.

CHAPTER 4

EXPORTING

4.1. INTRODUCTION

The exporting mode of internationalisation is preferred for a variety of reasons. According to Douglas and Craig (1994:73), exporting is popular amongst enterprises that internationalise for the first time because they want to overcome the anxieties about their ability to compete in foreign markets. Again, it is noted that a substantial number of enterprises that internationalise and begin with exporting are influenced by financial, managerial and other resource constraints (Johansson, 2006:127; Douglas & Craig, 1995:72). Johansson (2006:127) also maintains that exporting would still be preferable to resource-rich enterprises that are prudent and would dedicate fewer resources at the start through exporting, while assessing the potential of the market before they can increase their commitment within the market. Generally, it is agreed that exporting is the most popular means of internationalisation because, as opposed to other modes of foreign market entry, it requires less commitment of organisational resources, it offers flexibility of managerial actions, and involves fewer business risks (Katsikeas & Morgan, 1994:17; Leonidou, 1995:4; Halikias & Panayotopoulou, 2003:340; Albaum et al., 2005:253; Leonidou et al., 2007:736). As enterprises enter markets gradually, it is believed that owner-managers are afforded time to assimilate the knowledge acquired from initial international transactions, which influences their perception of market uncertainties and foreign opportunities to subsequently inform international transactions that follow (Johanson & Vahlne, 1990:12; Michailova & Wilson, 2008:243).

4.2. APPROACHES TO EXPORTING

Exporting can be approached from two angles. The enterprise can use outside specialists to manage its exporting affairs (referred to as indirect exporting) or it

can internalise the exporting function (i.e. direct exporting) (Douglas & Craig, 1995:76-77; Johansson, 2006:136; Bothma, 2007:318). Indirect exporting is advantageous in that an enterprise avoids the overhead costs and administrative burden involved in managing its exporting affairs (Johansson, 2006:318; Doole & Lowe, 2008:318). On the other hand, there is the disadvantage that the skills and know-how developed through experience in the foreign markets is accumulated outside the enterprise and therefore would not benefit an enterprise should it have to manage its own exporting affairs in the future (Johansson, 2006:318; Czinkota & Ronkainen, 2007:405). Another problem with indirect exporting, according to Doole and Lowe (2008:234) and Bothma (2007:13), is that it allows enterprises little control over how, when, where and by whom the products are sold and at times enterprises may not be aware that their products are being exported.

With direct exporting, the exporter takes control of the exporting activities (Douglas & Craig, 1995:77; Nelson, 1999:18; Bothma, 2007:318). The direct exporter can contact the consumer directly or through resellers (Douglas & Craig, 1995:78; Nelson, 1999:68; Johansson, 2006:137; Bothma, 2007:316; Czinkota & Ronkainen, 2007:414; Doole & Lowe, 2008:244). While direct exporting involves higher start-up costs, greater information requirements, and higher risks than indirect exporting does, it offers numerous advantages such as (Douglas & Craig, 1995:77; Doole & Lowe, 2008:239):

- Offering enterprises greater control over the selection of markets and the elements of the marketing mix;
- Concentration of marketing effort on the enterprise's product line;
- More and quicker information feedback from the target market,
- Better protection of trademarks, patents, goodwill, and other intangible property; and
- Offering enterprises an opportunity to build expertise in international marketing.

In addition to challenges involving higher start-up costs, greater information requirements and risks of direct exporting, the exporter has to acquaint him/herself with many different documents needed for various occasions, which mostly pose as trade barriers (Douglas & Craig, 1995:95-96; Johansson, 2006:138; Bothma, 2007:448-449). While there are some similarities in export documents used in different countries, certain documents appear to be specific to certain countries such as the declaration of goods removed within the Southern African Customs Union (SACU), which is needed in South Africa, but not in the USA (tables 4.1 and 4.2). Attempts to locate documentation detailing the documents used in exporting in Lesotho have failed.

Table 4.1: Principal documents used in exporting in the USA

<p>Required by foreign customer</p> <ul style="list-style-type: none"> • Pro forma invoice • Acceptance of purchase order • Ocean (airway) bill of lading • Certificate (or policy) of insurance • Packing list <p>Required by the exporter</p> <ul style="list-style-type: none"> • Purchase order • Letter of credit or draft (trade) acceptance <p>Required by freight forwarder</p> <ul style="list-style-type: none"> • Shipper's letter of instructions • Inland bill of lading • Packing list • Commercial invoice • Letter of credit (original copy) 	<p>Required by US government</p> <ul style="list-style-type: none"> • Export declaration • Export licence <p>Required by foreign governments</p> <ul style="list-style-type: none"> • Certificate of origin • Customs invoice • Consular invoice <p>Required by exporter's bank</p> <ul style="list-style-type: none"> • Exporter's draft • Commercial invoice • Consular invoice • Insurance certificate • Ocean (airway) bill of lading
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Source: Root (1994:94-95); Johansson (2006:138)

Table 4.2: Export documentation used by South African Exporters

<p>Transport documentation</p> <ul style="list-style-type: none"> • Bill of lading (sea) • Port to port bill of lading • Multimodal bill of lading • Non-negotiable way bill • House bill of lading • Waiver certificate • Shipping certificate • Air waybill (air) • House air waybill • Freight transport order (FTO-rail) • Container terminal order (rail) • Road waybill or consignment note (road) <p>Insurance documents</p> <ul style="list-style-type: none"> • Cargo insurance document • Certificate of insurance (cargo) • Export credit insurance certificate <p>Instruction documents</p> <ul style="list-style-type: none"> • Forwarder's instruction • Shipping instructions • Bank instruction <p>Harbour revenue documents</p> <ul style="list-style-type: none"> • Cargo dues document • Container terminal order (CTO) <p>Other financial documents</p> <ul style="list-style-type: none"> • Export credit insurance certificate • Forward exchange contract • Loan documentation relating to financing the export transaction 	<p>Customs documents</p> <ul style="list-style-type: none"> • Bill of entry export • Exchange control documents and application to sell foreign currency-balance of payments form • Export permit • Special export certificate/permit • Declaration of goods removed within the Southern African Customs Union (SACU) • Relevant transport documents • Commercial invoice <p>Payments documents</p> <ul style="list-style-type: none"> • Transport documents • Cargo insurance documents • Bill of exchange or bank draft • Proforma invoice • Commercial invoice • Inspection certificates • Certificate of origin • Fumigation certificate • Packing list • Consular certificates • Beneficiary certificates <p>Foreign documentary requirements</p> <ul style="list-style-type: none"> • Veterinary health certificate • Public health certificate • Certificate of free sale • Fumigation certificate • Inspection certificate or clean bill of findings • Quality certificate
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Source: Bothma (2007:448-449)

Heather (1990:13), on the other hand, maintains that in addition to numerous sources of assistance, including freight forwarders, bankers or agents, the documentation software inventions minimise the amount of time, money and energy needed to be expended on tedious documentary procedures.

According to Bothma (2007:449), the technological improvements such as the introduction of faxes and the Internet have altered the documentary system. This facilitates immediate and accurate easier transfer of information. Even though this also allows for more fraud and alteration of the documents, greater alertness is required from all the parties involved.

Generally, it is believed that enterprises face numerous challenges in their attempt to expand into foreign markets (Westhead, Wright & Ucbasaran, 2004:501; Viviers & Calof, 1999:918; Préfontaine & Bourgault, 2002:123; Leonidou, 2004:280).

4.3. EXPORT BARRIERS

An export barrier connotes any obstacle or problem that makes entry and expansion of operations into markets outside the home location of the enterprises difficult (Leonidou, 2004:281; Johansson, 2006:129). Suárez-Ortega (2003:403) defines export barriers as constituting all factors – external or internal – that serve to dissuade an enterprise from exporting or hinder its export activity. It means that export barriers not only make entry and expansion problematic but they can also actually discourage or deter enterprises from entering foreign markets.

Using a list of 64 problem items classified into infrastructural, economic, institutional and trade instrument barriers, Soontiëns (2002:716-717) determined that South African small and medium enterprise (SME) exporters faced a combination of institutional, economic and infrastructural obstacles.

- Infrastructural barriers consisted of marketing costs, labour (attitude, productivity, training and costs), production costs, quality and technology, transport costs and administration, and financing (costs and administration).
- Economic barriers covered inflation rate, interest rate, exchange rate volatility, exchange control, money convertibility and credit risk.
- Institutional barriers comprised socio-political instability, border regulations, customs and excise, bureaucracy, corruption, state intervention, status, composition of incentives, the Department of Trade and Industry, credit guarantee insurance and corporation.
- Trade instrument barriers incorporate tariffs, border taxes and quota imports, export incentives, government procurement, domestic requirements, health and safety, and regulations.

Enterprises specifically regarded corruption, bureaucracy, finance (administration and cost), labour training and credit risk as major obstacles arising from SADC markets, while exchange control, interest rates, corruption and labour related problems of productivity, attitude and cost were difficulties that arose within South Africa.

An investigation carried out by da Silva and da Rocha (2001:600) into Brazilian enterprises, using a list of 30 export barriers gathered from previous studies, revealed the order of importance of barriers. The top 10 most influential barriers faced by Brazilian exporters in their order of importance were:

- Inadequate export incentives
- Strong international competition in the target market
- Inadequate exchange rate policies
- High transportation and insurance costs
- Bureaucratic requirements in Brazil
- Slow collection of payments abroad
- Lack of financial assistance
- Bureaucratic requirements of other Mercosur countries
- Quality requirements of the target market

- Lack of knowledge of potential markets.

Factor analysis performed on the 30 barriers produced eight classes under which 25 barriers were grouped and variables with loading less than 0.5 were excluded from the analysis. The factors explaining 70.3 percent of the total variance are:

- Political and economic constraints (accounting for 29.6 %)
- Lack of information and access to target markets (accounting for 10.6 %)
- Lack of firm commitment to exporting (accounting for 7.1 %)
- Non-tariff barriers in the target market (accounting for 6.5 %)
- Corruption (accounting for 5.2 %)
- Lack of firm competitiveness in the target market (accounting for 4.1 %)
- Operational difficulties (accounting for 3.8 %)
- Quality requirements (accounting for 3.4 %).

Three out of the eight dimensions, namely political and economic constraints, corruption and lack of firm competitiveness in the target market, according to da Silva and da Rocha (2001:601-605), appeared to be the most relevant in discriminating Brazilian exporters based on:

- Industry type – having divided responses into those dealing with consumer goods and industrial goods. It was determined that enterprises exporting industrial goods perceived lack of firm competitiveness in the target markets as more seriously affecting their exports than enterprises that exported consumer goods.
- Enterprise size – enterprises were divided into SMEs and large enterprises on the basis of their number of employees. The large enterprises perceived corruption as affecting their international operations in the Mercosur more than SMEs did.
- Export experience – the sample was divided into two groups on the basis of export experience. One group consisted of the enterprises that started exporting to Mercosur countries prior to the creation of the common market (i.e.1990), while another consisted of enterprises that started exporting after

1990. It was ascertained that more experienced enterprises, that is, the enterprises that started exporting prior to 1990, perceived political and economic constraints and corruption as being more of a threat than did the lesser-experienced enterprises that started exporting after 1990.

- Export destination – having classified the sample into enterprises that exported to Latin American countries only and those that exported to Latin American countries and to countries in other regions of the world, it was established that enterprises exporting to other regions of the world perceived political and economic constraints and corruption to be more serious than did enterprises that only sold their products in the Latin American countries.

Kaleka and Katsikeas (1995:500) investigated export problems faced by Cypriot manufacturers exporting to the European Union (EU) and the existence of significant differences in perception of those problems on the level of export development. The ranking of the 18 export problems in their order of importance are (Kaleka & Katsikeas, 1995:505):

- Fierce competition in export markets
- Lack of government assistance in overcoming export barriers
- Lack of attractive export incentives provided by the government
- Lack of export promotion programmes sponsored by the government
- High cost of capital to finance exports
- Risks in selling abroad
- Lack of competitive prices
- The difficulty in making contacts in foreign markets
- Management emphasis on developing export market activities
- Difficulty in meeting product specifications of overseas customers
- Language and cultural differences
- High value of the domestic currency
- Complexity of paperwork involved
- Foreign government rules and regulations
- Lack of foreign market information
- High transportation costs

- Transportation difficulties
- Lack of personnel qualified in export marketing activities.

Kaleka and Katsikeas (1995:503) measured the export involvement of enterprises using a dichotomous classification of regular exporters referring to enterprises exporting on a regular basis and sporadic exporters as those enterprises that are involved in exporting on an irregular basis, which was supported by their ratio of export to sales. Regular exporters indicated a high ratio of exports to their sales compared to sporadic enterprises. Kaleka and Katsikeas (1995:506) used discriminant analysis to examine the potential differences in perception of exporting problems between regular and sporadic exporters and found seven export problem variables to significantly differentiate between the two categories of exporters. According to the findings, sporadic exporters perceived more problems than regular exporters did with respect to difficulty in making contacts in foreign markets, the complexity of the paperwork involved, the high cost of capital to finance exports, and the high transportation costs. Regular exporters, on the other hand, perceive more problems relating to transportation difficulties, risk in selling abroad, and lack of competitive prices as contrasted with enterprises involved in sporadic exporting activity.

When testing 19 export barriers on Spanish wine exporters, Suárez-Ortega (2003:408) established that all 19 barriers were perceived as export obstacles; none of them was given a central position value lower than three when a five-point likert scale was used. The export barriers in their order of importance were:

- Lack of knowledge of best potential markets
- Lack of finances for market research
- Lack of staff for export planning
- Strong foreign competition
- General lack of knowledge of how to export
- Differences in wine consumption habits
- Lack of awareness of export assistance available
- Export documentation requirements and red tape

- Lack of private sector export marketing firms to serve the wine industry
- Lack of awareness of economic and non-economic benefits of export
- Lack of capital or credit to finance export sales
- Unwillingness of banks to serve small and medium-sized businesses
- Lack of manufacturing capacity
- Risk of losing money
- Transport and shipping costs
- Risk of variations in exchange rates
- Trade barriers to Spanish exports
- Lack of local banks with adequate international expertise
- Language and cultural barriers.

Factor analysis distributed the barriers into Ramaswami and Young's (1990) theoretical classification of export knowledge, internal resource constraints, procedural barriers and exogenous barriers (Suárez-Ortega, 2003:404). The four factors accounted for 18 of the 19 barrier items as displayed in table 4.3.

Further, Suárez-Ortega (2003:411) categorised enterprises into four levels of export development, being uninterested non-exporters, interested non-exporters, initial exporters, and experienced exporters. According to the author, the approach chosen to determine the different export development level of enterprises was appropriate in cases where one aims to analyse non-exporting and exporting enterprises within the same empirical work, which the study had adopted.

Suárez-Ortega (2003:411-413) determined that the four classes of export barriers distinguish enterprises by their export development level. The results revealed that knowledge barriers were perceived more by non-exporting enterprises than exporting enterprises.

Table 4.3: Factor analysis results

Factors	Load
Export knowledge barriers	
• Lack of awareness of export assistance available	0.72
• Lack of awareness of economic and non-economic benefits of export	0.76
• Lack of knowledge of best potential markets	0.69
• General lack of knowledge of how to export	0.83
• Lack of staff fro export planning	0.73
Internal resource barriers	
• Lack of finance for market research	0.63
• Lack of capital or credit to finance export sales	0.74
• Lack of local banks with adequate international expertise	0.77
• Unwillingness of banks to serve small and medium-sized businesses	0.84
• Lack of private sector marketing firms to serve wine industry	0.81
Procedural barriers	
• Transportation and shipping costs	0.67
• Differences in wine consumption habits	0.67
• Trade barriers to Spanish exports	0.74
• Language and cultural barriers	0.60
• Export documentation requirements and red tape	0.66
Exogenous barriers	
• Strong foreign competition	0.71
• Risk of variations in exchange rates	0.83
• Risk of losing money	0.70

Source: Suárez-Ortega (2003:409)

With regard to internal resource constraints, there was a distinction in perception between non-exporting enterprises with an interest to export in the future and those that were not interested in exporting. Perceived procedural barriers were lower for enterprises with considerable export experience while there was also considerable distinction between non-exporting enterprises and those with export experience with respect to the perception of exogenous barriers.

Katsikeas and Morgan (1994:5) determined that there is a difference in perception of exporting problems based on enterprise size and export market experience. The study focused on food-exporting manufacturers in Greece, which traded with Germany. The size of the enterprises was measured according to the number of full time employees, because a pre-study indicated that managers were willing to provide employment information rather than sales volume. Exporters were classified into small and large entities on the basis of the median value. Export experience was measured in terms of the number of years of exporting to a country. The classification of enterprises into “less experienced” and “more experienced” was based on the median value. To operationalise the measure of export barriers, Katsikeas and Morgan (1994: 22) first identified a battery of 24 export problems found in the literature review. The survey firstly determined the frequency of occurrence of each problem on a five-point scale represented by “always” (five) to “never” (one). Subsequently, the respondents had to weigh each item according to its importance, that is, the extent to which the problem is considered detrimental to exporting operations ranging from a “very negative effect” (nine) to “no effect” (one). Principal component analysis was employed to test the dimensionality of the 24 export problem items and an eight-factor solution emerged as presented in table 4.4.

Katsikeas and Morgan (1994:25) revealed significant differences in perceptions of exporting problems based on enterprise size and export market experience. With regard to enterprise size, the study revealed that smaller enterprises perceived higher levels of exporting problems than the larger ones did with regards to three problem dimensions, namely, information/communication with the export market, product adaptation, and exogenous logistical constraints.

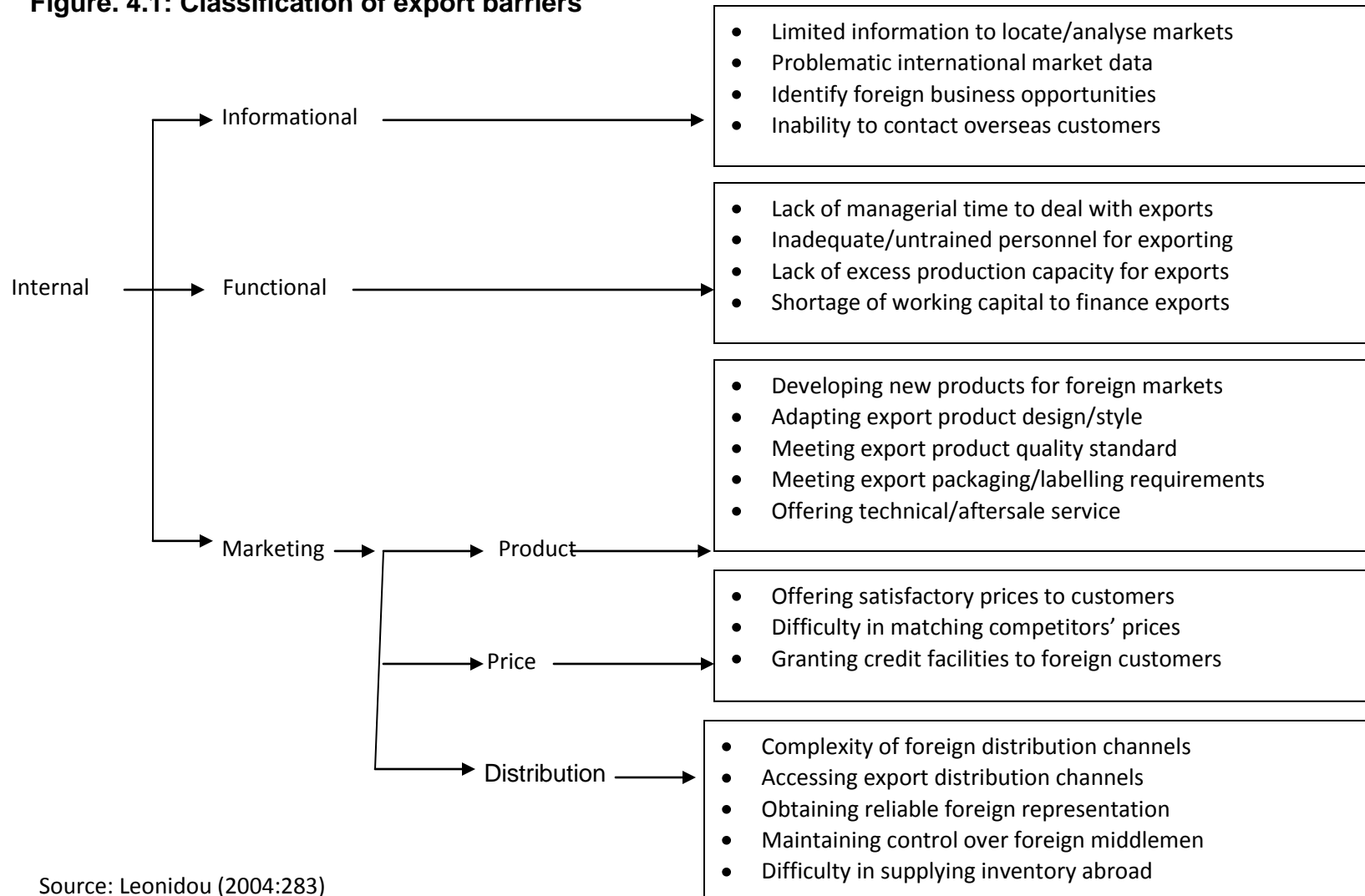
In connection with export market experience, less experienced exporters encountered a greater number of problems pertaining to national export policy and perceived procedural complexity than the more experienced exporters did. The latter perceived high levels of export pricing constraints in contrast with the less experienced exporters.

Table 4.4: Dimensions of perceived export problems

	Factor
Problem 1	<p><i>Informational/communication with the export market</i></p> <ul style="list-style-type: none"> • Insufficient information about overseas markets • Inadequate promotion in export markets • Lack of export marketing research • Difficulty in identifying capable overseas distributors • Lack of information on overseas customers
Problem 2	<p><i>Product adaptation</i></p> <ul style="list-style-type: none"> • Poor quality in export packaging • Difficulty in meeting importers' product quality standards • Poor product design and style for export markets
Problem 3	<p><i>Export pricing constraints</i></p> <ul style="list-style-type: none"> • High cost of capital to finance exports • Inability to self-finance exports • Lack of competitive price • Strong international competition
Problem 4	<p><i>Marketing organisation adaptation</i></p> <ul style="list-style-type: none"> • Poor organisation of firm's export department • Lack of personnel qualified in exporting • Lack of "experts" in export consulting
Problem 5	<p><i>Exogenous logistical constraints</i></p> <ul style="list-style-type: none"> • High transport costs • Difficulties in transporting the product(s) exported • Payment delays from overseas distributors
Problem 6	<p><i>National export policy</i></p> <ul style="list-style-type: none"> • Lack of government assistance in overcoming export barriers • Ineffective national export promotion programmes
Problem 7	<p><i>Perceived procedural complexity</i></p> <ul style="list-style-type: none"> • Complexity of export documentation requirements • Red tape in public institutions
Problem 8	<p><i>Domestic currency devaluation</i></p> <ul style="list-style-type: none"> • Insufficient devaluation of the domestic currency

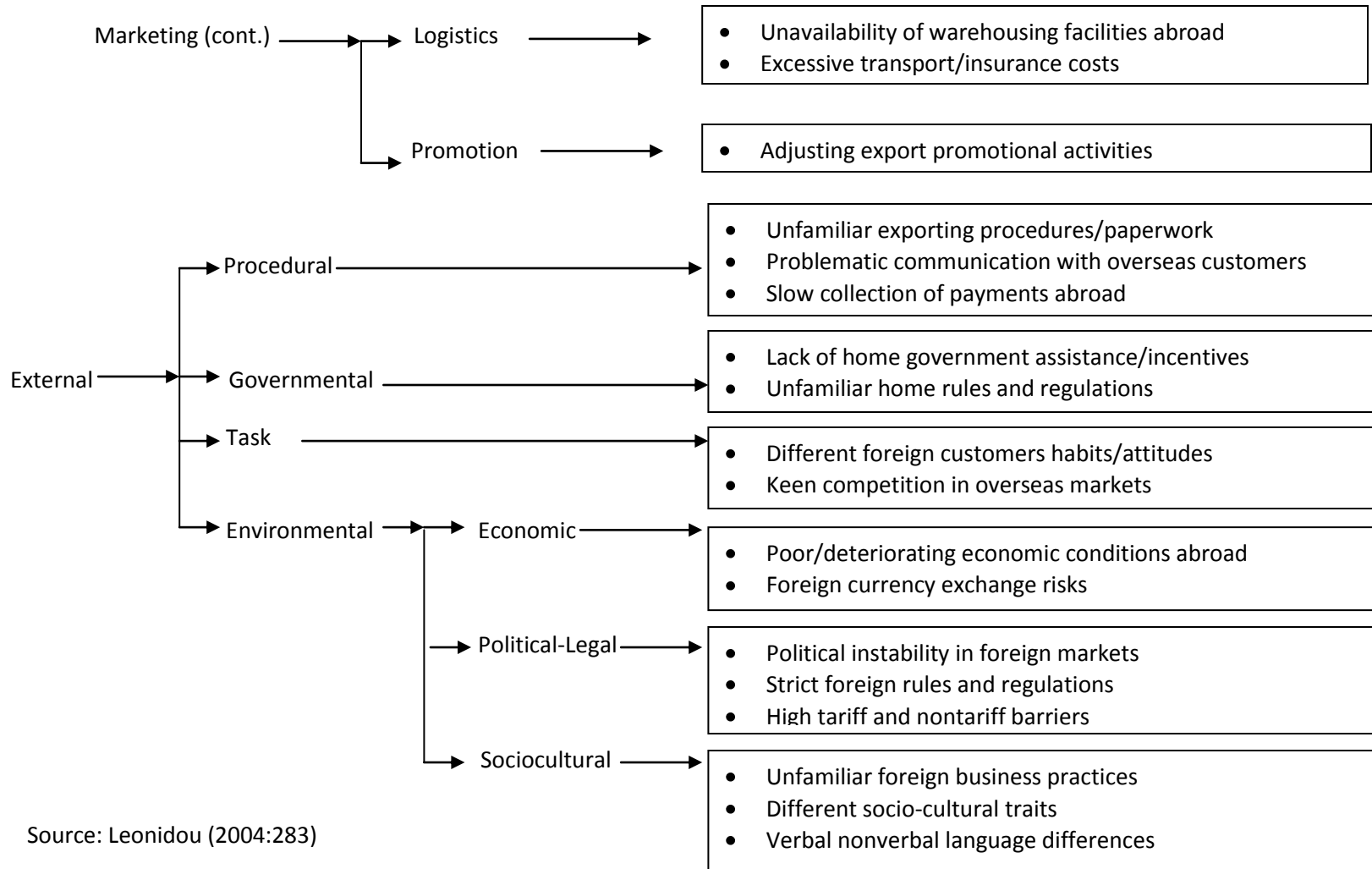
Source: Katsikeas and Morgan (1994:23)

Figure. 4.1: Classification of export barriers



Source: Leonidou (2004:283)

Figure. 4.1: cont. Classification of export barriers



Source: Leonidou (2004:283)

Table 4.5: Aggregate ranking of export barriers

<p>Very High Impact</p> <ul style="list-style-type: none"> • Limited information to locate/analyse markets • Inability to contact overseas customers • Identifying foreign business opportunities • Difficulty in matching competitors' prices • Excessive transportation/insurance costs • Different foreign customer habits/attitudes • Poor/deteriorating economic conditions abroad • Political instability in foreign markets • High Impact • Offering satisfactory prices to customers • Accessing export distribution channels • Obtaining reliable foreign representation • Granting credit facilities to foreign customers • Unfamiliar exporting procedures or documentation • Unfavourable home rules and regulations • Foreign currency exchange risks • Strict foreign rules and regulations 	<p>Moderate Impact</p> <ul style="list-style-type: none"> • Problematic international market data • Lack of managerial time to deal with exports • Inadequate/untrained personnel for exporting • Shortage of working capital to finance exports • Providing technical/after sales service • Complexity of foreign distribution channels • Adjusting export promotional activities • Problematic communication with overseas customers • Slow collection of payments from abroad • Lack of home government assistance or incentives • Keen competition in overseas markets • High tariff and nontariff barriers • Unfamiliar foreign business practices • Different sociocultural traits <p>Low Impact</p> <ul style="list-style-type: none"> • Meeting export product quality standards or specifications • Lack of excess production capacity for exports • Verbal/nonverbal language differences <p>Very Low Impact</p> <ul style="list-style-type: none"> • Developing new products for foreign markets • Adapting export product design/style • Meeting export packaging/labelling requirements • Maintaining control over foreign middlemen • Difficulty in supplying inventory abroad • Unavailability of warehousing facilities abroad
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Source: Leonidou (2004:286)

On the basis of a review of 32 empirical studies conducted during the period 1960-2000, Leonidou (2004:281) produced a classification of export barriers. The author classified export barriers according to the source, that is, internal barriers relating to barriers associated with organisational resource/capabilities and the approach of enterprises to export business. External barriers referred to those barriers that stem from the home and/or host environment within which an enterprise operates. Leonidou (2004:286) further subdivided internal barriers into functional, informational and marketing, while external barriers are classified into procedural, governmental, task and environmental barriers (see figure 4.1). Leonidou's (2004:286) review did not only classify barriers, but consolidated the rankings of barriers according to their impact as rated by both exporters and non exporters as displayed in table 4.4. The author determined, as indicated in Table 4.4, that the barriers that pose a strong obstructing effect were those barriers pertaining to information inefficiencies, price competitiveness, foreign customer habits, and political-economy hurdles.

4.4. EXPORT DEVELOPMENT PROCESS

As indicated earlier, exporting enjoys a special status over other forms of international trade because of a number of benefits that accrue from it. Such benefits are less likely to occur through other modes of entry into the international market (Ahmed et al., 2007:10; Czinkota, 2002:123-124).

Several attempts have been made since the mid-1970s to conceptualise the export development phenomenon, in particular, the export development stages and factors that drive exporting (Leonidou & Katsikeas, 1996:521; Tan, Brewer & Liesch, 2007:294).

Bilkey and Tesar (1977:93) portray export development as a six stage process:

- Stage 1: Management is not interested in exporting, and would not even fill an unsolicited export order.

- Stage 2: Management is willing to fill unsolicited export orders but does not make an effort to actively explore the feasibility of exporting.
- Stage 3: Management actively explores the feasibility of exporting (the stage can be skipped if unsolicited orders are received) (referred to as the passive exporter).
- Stage 4: The enterprise exports on an experimental basis to some psychologically close country (an experimenter).
- Stage 5: Experienced exporter.
- Stage 6: A committed exporter.

Bilkey and Tesar (1977:94-95), using a multiple regression analysis, were able to determine that considerations that influence enterprise progressions from one stage to the next tend to differ. The analysis, which concentrated on three stages, that is stages three to five, indicated that stage three is a function of the general perceptions of management with regards to exporting and of foreign markets rather than immediate economic considerations. According to the aforementioned authors, owner/managers may be in favour of exporting independent of the contribution exporting might make to the enterprise because of the attractive experience that management has enjoyed in foreign markets. For stage four (export experimentally), it was determined that enterprises were driven to the fourth stage by the quality and dynamism of the management of the enterprises, but exceedingly, enterprises entered the stage because of an unsolicited initial export order. However, some enterprises entered the stage after an active exploration of the feasibility of exporting and solicitation of initial orders. Analysis indicated that compared with those enterprises whose initial order was unsolicited; enterprises that obtained their own initial export order:

- Were much larger (almost two-and-a-half times as many employees);
- Enjoyed much more favourable expectations regarding the advantages of exporting for their enterprise;
- Had much better and more dynamic management as measured by the scales used; and
- Perceived somewhat fewer barriers to exporting.

At stage five, it was established that a composition of the following four barriers were significant to the majority of enterprises at this stage, namely:

- Difficulty in understanding foreign business practices;
- Different product standards and consumer standards in foreign countries that make the locally produced products unsuitable for export;
- Difficulty in collecting money from foreign markets; and
- Difficulty in obtaining adequate representation in foreign markets.

The study suggests that with increased experience, certain actual export barriers become a significant challenge for enterprises, while initially, management's exporting decisions were influenced by the perceptions of the enterprise's readiness and competitive advantage.

Despite the differences among various models as to the number, nature and content of the export development stages, on the basis of the review of eleven studies published between 1975 and 1995, Leonidou and Katsikeas (1996:524) conclude that export development models exhibited three broad phases, namely pre-engagement, initial and advance phases.

- Pre-engagement phase includes three types of enterprises: those selling their goods solely in the domestic market and not interested in exporting, those enterprises involved in the domestic market but seriously considering exporting activity and those that used to export in the past but are no longer doing so.
- The initial phase relates to enterprises that are involved in sporadic exporting activity. While enterprises at this stage are regarded as having the potential to increase their overseas involvement, they are, however, failing to cope with the demands of exporting; consequently, leading to marginal export behaviour or withdrawal from foreign operations altogether.
- The advanced phase refers to the stage where enterprises are regular exporters with extensive overseas experience and frequently consider more committed forms of international business.

The progression of enterprises from one stage to the next is an evolutionary and sequential process largely attributed to the interplay between the development of experiential knowledge of foreign markets and operations, on the one hand, and the increasing commitment of organisational resources on the other (Leonidou & Katsikeas, 1996:525-527; Tan et al., 2007:296). The learning process of enterprise owners / managers is triggered by the decision maker's exposure to, and recognition of, relevant information (Wiedersheim-Paul, Olson & Welch's, 1978:54; Tan et al., 2007:297). The decision maker's information acquisition, on the other hand, arises from being exposed to stimuli, which act as motives, incentives, triggering cues or attention evokers that drive an enterprise's international expansion (Tan et al., 2007:297).

In the view of Wiedersheim-Paul et al., (1978:47-54), the expansion process that enterprises experience in their domestic markets has important implications regarding the starting of exports. Focusing on domestically owned and operated manufacturing enterprises in Australia; they identified three distinct patterns of the domestically owned enterprise with regard to pre-export information activities, specifically in their willingness to start exporting, information collection activity and information transmission activity. These activities were therefore classified into three groups (table 4.6).

Table. 4.6: Pre-export information activities of domestically owned enterprises

Groups	Willingness to start exporting	Information collection activity	Information transmission activity
Domestic group	None to low	None to low	None to low
Passive group	Low to medium	Low to medium	Low
Active group	Medium to high	Medium to high	Low to high

Source: Wiedersheim-Paul et al. (1978:53)

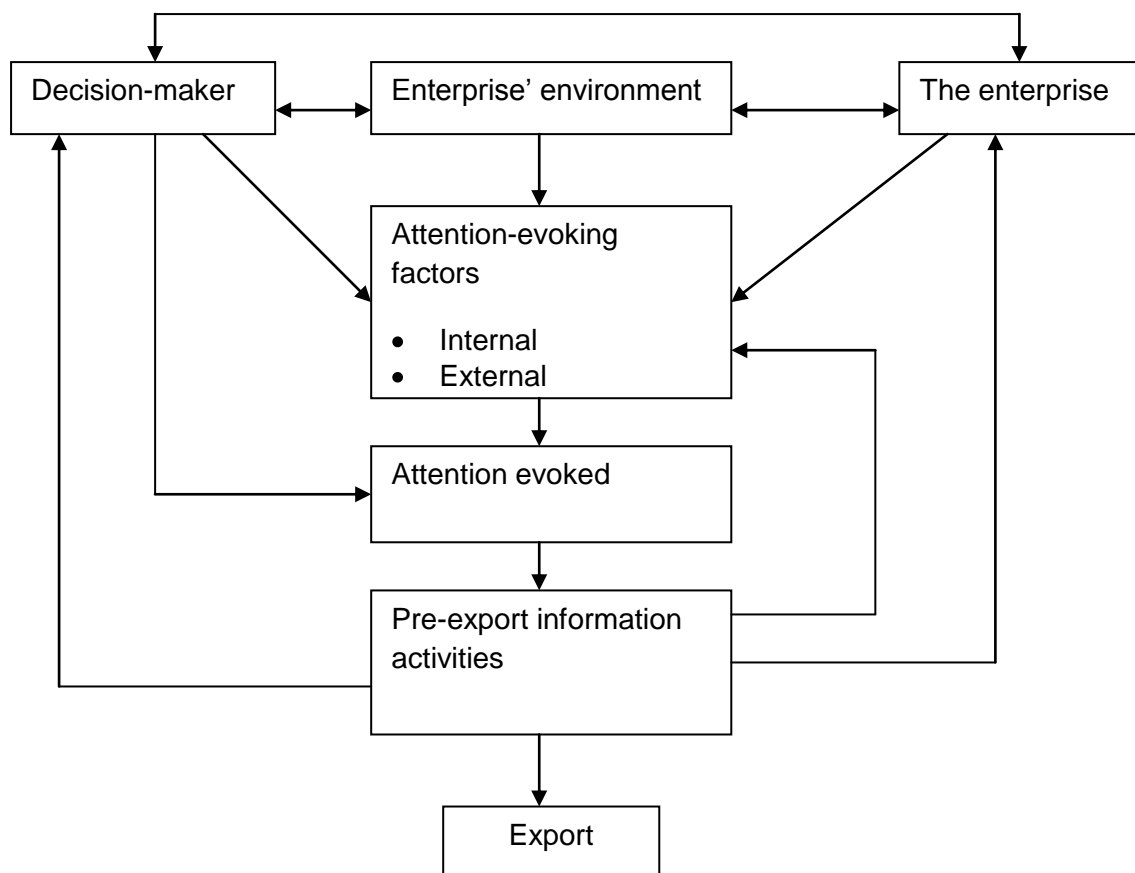
As table 4.6 indicates, the domestic group has limited or a complete lack of willingness to start exporting and as such exerts little or no effort into collecting export-related information. The passive and active groups' willingness to export and collect information increases at varying intensities.

The authors determined that most domestically owned enterprises would be in the domestic group and would remain in this group for as long as they feel that:

- Their products are not suitable for export markets;
- Their location is not suitable for exporting; and
- Their local market is adequate.

A movement from the domestic group to the passive or active group will be caused by internal and/or external changes referred to as the attention-evoking factors. The attention-evoking factors (e.g. unique competencies, excess capacity, and fortuitous order from foreign markets) are defined as those factors or influences that cause the enterprise to consider exporting as a possible strategy (Wiedersheim-Paul et al., 1978:51).

Figure. 4.2: Factors affecting the pre-export activities of the enterprise



Source: Wiedersheim-Paul et al., (1978:48)

Attention-evoking factors are also termed stimulating forces, motives, incentives or triggering cues (Leonidou, 1998:43; Leonidou et al., 2007:737; Tan et al., 2007:297). The type and the amount of attention and how the factors influence the decision-maker depends on the individual and interactive effects of the decision-maker, the environment of the enterprise and the enterprise itself as modelled in figure 4.2.

The model suggests that as enterprises begin their operations in their domestic markets, certain attributes arising from the decision maker, the environment, and the enterprise, activate attention-evoking factors. For instance, domestic expansion is viewed as an important factor in the activation of attention-evoking factors, as the study revealed, a correlation exists between enterprises that expanded domestically and those that demonstrated active pre-active export activities.

4.4.1. Export stimuli

Export stimuli – also called motives, incentives, triggering cues, attention evokers and accelerators – are factors that drive enterprises into international business (Leonidou, 1998:43; Leonidou et al., 2007:737; Mtigwe, 2005: 371). The factors that stimulate enterprises to export have been well researched, with the first study being undertaken in the late 1960s (Morgan, 1997:70; Leonidou, 1995:18, 1998:44).

On reviewing previous research studies on export stimulation carried out between 1974 and 1992, Leonidou (1995:19-23) determines that, irrespective of time, place or product focus, the following, in their order of importance, were influential in stimulating export initiation:

- The receipt of unsolicited orders from foreign customers
- Excess production capacity
- Domestic market saturation/shrinkage
- Export incentives by government.

The findings of the aforementioned study reflected that enterprises engaged in exporting in a very passive and opportunistic manner as the prime force of stimulation, basically consisted of factors of an external-reactive nature. In the review of studies covering the period of 1974 to 1996, Leonidou (1998:49) reiterated the conclusions in Leonidou (1995:23) except for the effect that some export stimuli seemed to vary in accordance with the time frame, geographic focus, and industrial coverage.

Leonidou (1995:25), in contrast to the findings of earlier research, and based on a study of Cyprus manufacturing enterprises in the latter half of 1992, found the ranking of export stimuli as follows:

- The potential for extra sales resulting from exporting
- The potential for additional corporate growth from exporting
- The achievement of economies of scale resulting from overseas orders
- Potential for extra profits to be derived from export sales
- Products with unique qualities.

The results suggest that internal-proactive stimuli constitute the primary motive for exporting, which reflects that enterprises engage in active and deliberate exploitation of their unique competences to enter foreign markets. According to Leonidou (1995:31), the findings indicate a more idealistic perception of export stimulation on the part of non-exporters, compared to actual exporters. Nonetheless, Leonidou (1995:33) advised that the findings should be treated with caution due to the tendency by managers to overestimate their strength and underestimate their weaknesses, particularly with reference to such a hypothetical situation as the potential to initiate export sales. The same rational export behaviour seemed to prevail among exporters, as Leonidou's (1998:50) test on exporters in Cyprus using 20 most commonly cited export stimuli determined that the trust of motivation for Cypriot exporters lies in both internal and proactive forces, in particular, the desire to achieve additional corporate sales, profits and growth by engaging in export operations.

Pope (2002:19) used Czinkota, Ronkainen, Moffett and Moynihan's (1998) framework comprising seven proactive reasons and six reactive reasons to investigate why enterprises export. Proactive stimuli consist of those factors that stimulate exporting, denoting the unique internal competencies of the enterprises, while reactive stimuli exemplify a response to organisational or environmental pressure (Morgan, 1997:69; Leonidou, 1998:46-47). Pope (2002:23-25) established that exporting enterprises are influenced more by proactive reasons than reactive reasons. High on the list of the said reasons was an enterprise's ownership of a unique product followed by possessing a technological advantage over the competitors, the desire to achieve economies to scale, and fear by management of losing foreign market opportunities.

It is argued that export stimuli can constitute a real driving force in exporting only to the extent with which they are brought to the attention of the key decision maker(s) within the organisation (Leonidou, 1998:44; Viviers & Calof, 1999:918; Westhead et al., 2004:501; Leonidou et al., 2007:737). They further point out that, the effective activation of export stimuli will be subject to the facilitating or inhibiting role of various background variables associated with:

- The environment (e.g. economic conditions, market size, infrastructure facilities);
- The organisation (e.g. corporate objectives/strategies, resource availability, nature of the products); and
- The manager (e.g. management style, managerial competences/qualities, management demographic).

Consequently, studies have been expanded to establish an association between export stimuli and a number of parameters such as business size and various aspects of enterprise internationalisation process.

Enterprise size exhibited discriminating effects on export stimuli perception (Leonidou, 1995:29, 1998:61). However, Pope (2002:22) maintains that both small and large enterprises are motivated by proactive stimuli (i.e. offering

products with unique qualities and possessing technological advantage over competitors) even though large enterprises are also motivated by a drive to achieve economies of scale and fear of losing foreign opportunities. According to Leonidou (1998:61), however, it is only large enterprises that are driven by proactive stimuli (specifically, the existence of a special interest by the principal decision maker in the export business and the possession of comparative advantages against competitors), whereas small ones are motivated by reactive stimuli (particularly, the limitations on the home market causing saturated demand, stagnant business, declining profit, and keen competition). According to Leonidou (1995:29), large enterprises are motivated by a combination of reactive and proactive stimuli (i.e. increased competition in the domestic market, the potential for extra profits derived from exporting, the potential for extra sales from exporting, the production of goods with unique qualities, the provision of export-related incentives, and the saturation/shrinkage of the home markets) .

Exporting experience, though measured differently, has a discriminating role. Pope (2002:23-24) measured exporting experience using the percentage of export sales. He established that enterprises are more likely to report higher exports as a percentage of sales if they hold a stronger belief that they possess:

- A unique product;
- Technological advantage over competitors;
- Special knowledge about foreign markets or customers;
- A saturated domestic market;
- Declining domestic sales, or fear of losing domestic market share; and
- The manager's willingness to be part of an enterprise that sells internationally.

Leonidou (1995:32) tested the role of export experience among non-exporters. Non-exporters were split into categories of those who had never exported and ex-exporters. He found that ex-exporters stressed achievement of economies of scale from exporting, the potential for extra growth resulting from exporting, and the receipt of orders from trade fairs/missions being

higher than for non-exporters who have never exported. In addition, the results suggest that ex-exporters feel strongly about the stimuli because they are likely to have experienced them.

Crick and Chaudhry (1997:161) categorised enterprises into four levels of non-exporting activity, ranging from those that are not interested in exporting to enterprises that have exported in the past, but currently are not engaged in exporting. Furthermore, at the exporting stage, the authors classified enterprises into four groups: from marginal exporters through to those that have a high involvement in export activities. The rating of export motives varied between enterprises in different stages of internationalisation. For instance, competitive pressures were rated highest (with a mean score of 3.24) by enterprises that exported aggressively, and according to Crick and Chaudhry (1997:161), they are positioned at the last stage of export development. On the other hand, Crick and Chaudhry's (1997:161) study indicates that enterprises at stage three (which represent ex-exporters who do not plan to export in the future), ranked competitive pressure as the lowest with a mean score of 2.02.

The type of manufactured goods also differentiated perceptions of certain export stimuli. According to Leonidou (1995:29), the type of product revealed significant discriminating effects on five export stimuli, namely, the achievement of economies of scale from exporting, the existence of a special managerial interest/urge, the identification of better opportunities abroad, the potential for export-led growth, and the saturation/shrinkage of the domestic market, which were considered to be more influential by manufacturers of consumer goods. As Leonidou's (1995:29) study was focused on non-exporters, the results imply that manufacturers of consumer products are more likely to initiate exports than the producers of industrial goods.

Leonidou et al. (2007:739) compiled 40 different export stimuli that could motivate exporting from the review of 32 empirical studies conducted from 1974 to 2005. They grouped the 40 stimuli into a classification typology adopted in other studies (such as those of Katsikeas, 1996:6-7; Morgan,

1997:71-72; Pope, 2002:21), that is, internal/external and proactive/reactive stimuli (see table 4.7).

Table 4.7: Classification of export stimuli

Internal	Human resource	<ul style="list-style-type: none"> • Special management interest/urge (P)* • Utilisation of special management talent/skill/time (P) • Management trips overseas (P)
	Financial	<ul style="list-style-type: none"> • Stagnation/decline in domestic sales/profits (R)* • Potential for extra sales and profits from exporting (P) • Potential for extra growth from exporting (P) • Possession of financial competitive advantage (P)
	Production	<ul style="list-style-type: none"> • Accumulation of unsold inventory/overproduction (R) • Achievement of economies of scale (R) • Availability of unutilised production capacity (R) • Smoothing production of a seasonal product (R)
	Research and development	<ul style="list-style-type: none"> • Possession of proprietary technical knowledge (P) • Possession of a unique/patent product (P) • Extending life-cycle of domestic products (P)
	Marketing	<ul style="list-style-type: none"> • Possession of a marketing competitive advantage (P) • Ability to easily adapt marketing for foreign markets (P)
External	Domestic market	<ul style="list-style-type: none"> • Saturation/shrinkage of domestic market (R) • Need to reduce dependence on and risk of domestic market (R) • Possibility of reducing the power of domestic customers (P) • Unfavourable state of domestic economy (R) • Favourable foreign exchange rates (R)
	Foreign market	<ul style="list-style-type: none"> • Possession of exclusive information on foreign markets (P) • Identification of better opportunities abroad (P) • Close physical proximity to foreign markets (R)
	Home government	<ul style="list-style-type: none"> • Government export assistance/incentives (P) • Ministry of Commerce/trade mission activity (R) • Encouragement by government agencies (R)

Source: Leonidou et al. (2007:739)

Table 4.7: cont. Classification of export stimuli

External	Foreign government	<ul style="list-style-type: none"> • Relaxation of foreign rule and regulations in certain foreign markets (R) • Reduction of tariffs in certain overseas countries (R)
	Intermediaries	<ul style="list-style-type: none"> • Encouragement by industry, trade, and other associations (R) • Encouragement by banks/financial institutions (R) • Encouragement by brokers/agents/distributors (R)
	Competition	<ul style="list-style-type: none"> • Intense domestic competition (R) • Initiation of exports by domestic competitors (R) • Entry of a foreign competitor in the home market (R) • Gaining foreign expertise to improve domestic competitiveness (P)
	Customers	<ul style="list-style-type: none"> • Receipt of unsolicited orders from foreign customers (R) • Receipt of orders after participation in trade fairs (R)
	Miscellaneous	<ul style="list-style-type: none"> • Proximity to international ports/airports (R) • Patriotic duty of local firms (P)

Source: Leonidou et al. (2007:739)

* P= proactive, R= reactive

Further, the author subdivided internal stimuli into key functional areas of the organisation, namely, human resources, financial, research and development, production, and marketing, while external stimuli are categorised as domestic market, foreign market, home government, foreign government, the intermediaries, the competition, the customers, and miscellaneous.

An internal stimulus refers to influences intrinsic to an enterprise denoting positive export behaviour while external stimuli refer to motives stemming from an enterprise's domestic or foreign environment signifying a negative approach to exporting (Leonidou, 1995:19, 1998:44). Proactive stimuli indicate aggressive export behaviour based on an enterprise's interest in exploiting unique internal competences or market possibilities, while reactive stimuli typify passive engagement in export activities as a response to environmental pressures (Leonidou, 1995:19, 1998:47; Pope, 2002:18).

The bulk of the studies, in which export stimuli are generated, focus on small and medium enterprises, probably because of the realisation that small and medium enterprises are less active in international markets than larger ones. It would be important to determine what would prompt them to export (Crick & Chaudhry, 1997:156; Pope, 2002:19; Leonidou et al., 2007:736).

4.5. EXTERNAL EXPORT STIMULI WITHIN LESOTHO

It is noted that governments might intervene in markets characterised by increasing returns to scale and imperfect competition in the output market to increase national welfare (Janeba, 1998:135-136; Yin & Yin, 2005:60; Kiyono & Wei, 2008:56). For instance, it is believed that subsidies would shift economic rents from a foreign economy to the home country. However, direct or explicit export promotion measures are not popular because of the non-discrimination principle practised by the international community under GATT/WTO regulations (Yin & Yin, 2005:61). Despite the non-discrimination principle, export measures such as tax rebates, low-interest loans, low prices on land leasing, availability and affordability of utilities such as electricity and water, are still widely used in practice to stimulate exporting (Yin & Yin, 2005:61; Kiyono & Wei, 2008:56). In fact, the government of Lesotho does not regard subsidies as inappropriate policies, as long as the purpose of subsidies does not lead to distortions or result in counter-productive implications. Export promotion is one of the key elements of Lesotho's trade policy, partly to offset domestic inefficiencies such as poor infrastructures and inefficient financial intermediation (WTO, 2003:22).

While there is no general export subsidy scheme in Lesotho, current and potential exporters are assisted in the following ways (SACU, n.d: A2-131-132; Sandrey, et al., 2005:32; Central Bank Lesotho (CBL), 2006(b):2; Multilateral Investment Guarantee Agency (MIGA), 2006:23; Ministry of Finance, 2008:4-5):

- Provisions exist for rebates or refunds of import duties paid on raw materials/components required in manufacturing.

- Manufacturing enterprises are charged a low corporate tax of 15 percent on profit compared with 37 percent for other enterprises.
- There is no secondary or withholding tax on dividends distributed by manufacturing enterprises to local or foreign shareholders.
- A number of actions have been taken to reduce the cost of conducting business by expediting the process and rendering the process as hassle free as possible. For example, a one-stop-shop for the processing of import and export permits has been established. The import and export procedures to obtain export permits, when necessary, have been reduced by bringing the Lesotho Revenue Authority and trade officials under one roof and further delegating the Principal Secretary's authority to them. Also, exporters do not have to apply for rebates in respect of each item, unlike previously. Additionally, an application for a manufacturing licence, which consisted of 16 pages, has been reduced to two pages.
- Manufacturers operating in Lesotho, through the Lesotho Duty Credit Certificate Scheme, earn duty credits when exporting. The manufacturer can then trade these import credits on the SACU market for cash at a discount of approximately 80 percent on the face value to importers of other products into SACU.
- The Trade Promotion Unit within the Ministry of Trade, Industry and Marketing facilitates participation of local manufacturers and exporters at regional and international trade fairs and exhibitions. The assistance is limited to marketing assistance such as providing information on trade fairs and product quality standards and does not cover financial support for costs associated with trade fair participation.
- The Central Bank of Lesotho currently allows enterprises to open foreign currency and offshore accounts to enable them to hedge against foreign exchange risk.

4.6. CONCLUSION

The exporting mode of internationalisation is preferred to other modes of internationalisation, because it requires fewer resources, is more flexible, and is less risky. However, there are still challenges that need to be addressed

such as high transportation costs, high insurance costs, and strong international competition in the target market, to mention a few.

The importance of exporting to both enterprises and nations instigated research interest into factors that drive exporting and how it unfolds. The findings indicate that exporting evolves in stages and a number of stimuli such as excess capacity and export incentives from governments and other institutions can encourage exporting. It is noted that in Lesotho, the government does not have a general export subsidy scheme; however, some form of assistance is in place to encourage exporting. For instance, exporters receive rebates and refunds on imports of raw materials/components required in manufacturing. The subsequent chapter will discuss the methodology adopted in this study.

CHAPTER 5

RESEARCH METHODOLOGY

5.1 INTRODUCTION

Research methodology is an overall approach to the research process (Hussey & Hussey, 1997:54; Punch, 2005:28). Punch (2005:40) details a research process as comprising two stages, namely pre-empirical and empirical (see figure 5.1).

Figure 5.1 illustrates that, at the pre-empirical stage, a research process starts with the exploration of a certain research area which leads to the identification of a topic from which the research questions are generated and in other situations from which hypotheses are set. Further, Figure 5.1 exhibits that the empirical stage entails research design, data collection, data analysis and answering questions or testing hypotheses.

According to Hussey and Hussey (1997:54), methodology is concerned with the following main issues:

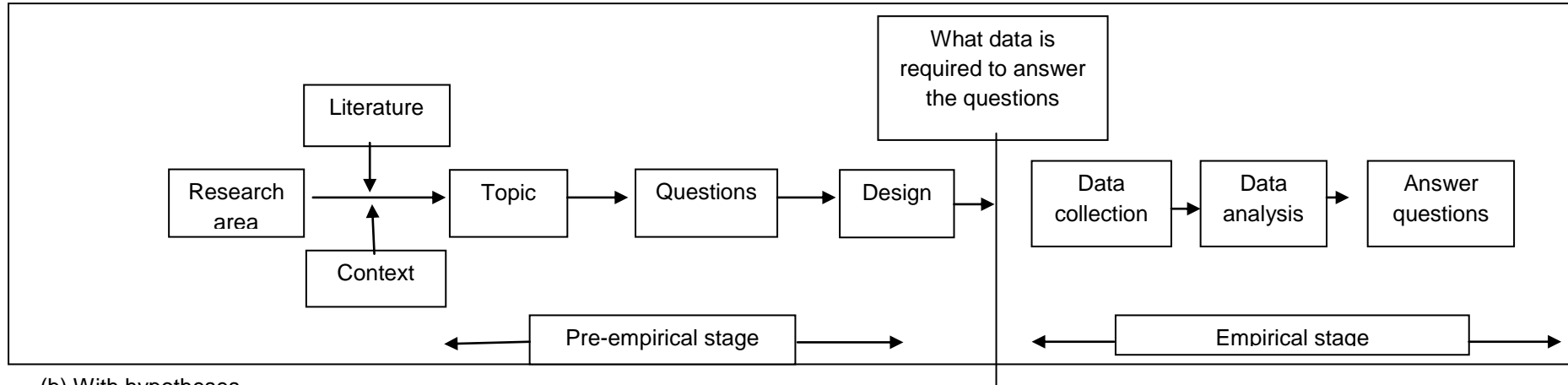
- Why certain data is collected;
- What data to collect;
- From where data is to be collected;
- When to collect data;
- How data will be collected; and
- How data will be analysed.

Cooper and Schindler (2003:663), on the other hand, indicate that research methodology entails the following:

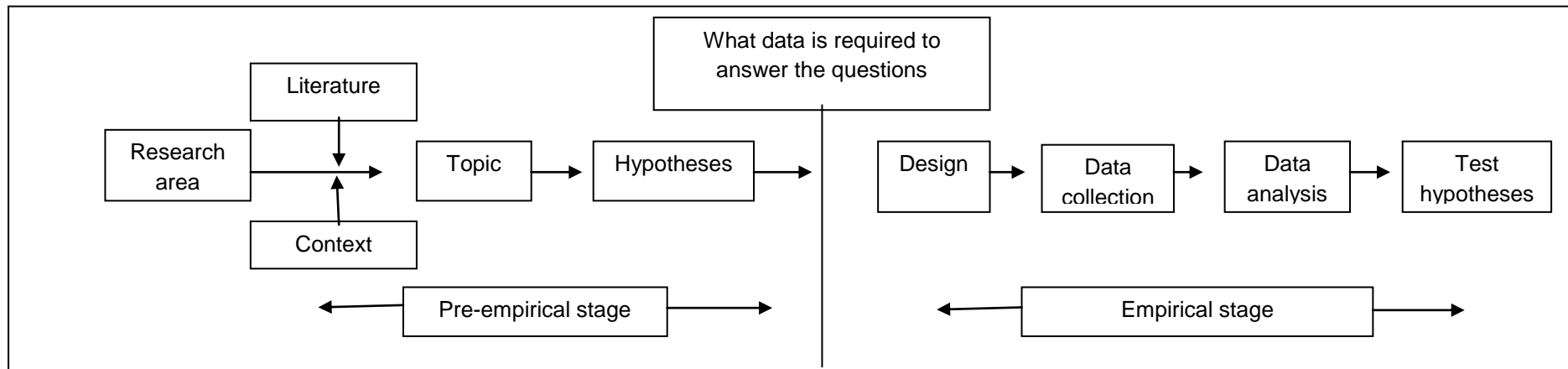
- Sampling design;
- Research design;
- Data collection techniques;
- Data analysis methods; and
- Limitations of the study.

Figure 5.1: Research process model

(a) Without hypotheses



(b) With hypotheses



Source: Punch (2005:40)

According to Mwanje (2001:104), methodology is derived from the type of study selected, while Punch (2005:19) argues that the methods utilised normally follow from the questions that are posed. Cooper and Schindler (2003:65) indicate that, irrespective of the type of research, the management question is a critical activity at the beginning of the research process. One gathers that even if one looks at the type of the study in order to determine the methodology, the methodology used is still guided by the research question as the first step of the research process that influences all subsequent steps.

This chapter, therefore, firstly briefly recaptures the problem statement and hypotheses from Chapter 1 and then elaborates on the selected methodology.

5.2. PROBLEM STATEMENT AND HYPOTHESES

Exporting activity is highly regarded by nations and enterprises because of the benefits that can accrue from it. Exporting, as indicated in Chapter 1, induces GDP growth as it enables countries to adopt foreign technologies, increase employment and labour productivity, and enhances the country's external earning power (Ahmed, et al., 2007:10; African Development Report, 2004:127; Ruth, 1998:274). In Lesotho, exporting has been growing from 1975 to 2008, except for 2003, 2005 and 2007 (World Bank, 2004:72; Bureau of Statistics, 2010:11). The increase in exports was firstly brought about by foreign enterprises from South Africa that operated in Lesotho in order to avoid apartheid-era trade sanctions in the 1980s (Salm et al., 2002:14; Lall, 2005:1004). Also, exports increased as a result of the promotion of export-oriented manufacturing sectors around the 1990s (Central Bank of Lesotho, 2006(b):1). The signing of AGOA in 2000 brought another flow of export-oriented Asian FDIs into the apparel and textile industries (Central Bank of Lesotho, 2006(b):1; MIGA, 2006:23). It is noted, however, that Lesotho's exports are dominated by textiles and apparel that are driven mostly by AGOA (Ng & Yeats, 2004:157; Central Bank of Lesotho, 2004, 2006 (a)). Further, according to the Bureau of Statistics (2010:15-18), exports from Lesotho are destined for very few countries and Lesotho has also been experiencing a

negative balance of payments as reflected by a 10-year statistic (as presented in Table 1.5).

Empirical studies investigating issues pertaining to export marketing activities, particularly export barriers, are substantial (Kaleka & Katsikeas, 1995:499; Crick & Chaudhry, 2000: 30; Tesfom & Lutz, 2006:262). These studies have identified a number of export barriers such as strong international competition, lack of knowledge of potential markets and quality requirements of the target markets, to mention a few. These studies have also performed factor analysis to come up with factors under which a number of barriers are grouped. For instance, Soontiëns (2002:717) grouped export barriers into infrastructural barriers, economic barriers, institutional barriers and trade instrument barriers. Suárez-Ortega's (2003:409) factor analysis yielded four factors, namely export knowledge barriers, internal resource barriers, procedural barriers and exogenous barriers. Other studies attempted to determine the differences in perception of export barriers based on a number of enterprise characteristics. Katsikeas and Morgan (1994:5), for instance, established a relationship between the perception of export barriers and enterprise size and experience. However, to the researcher's knowledge, this study which investigates export barriers facing enterprises is the first to be conducted in Lesotho. Hence, the objective of this study is to determine the factors constraining exporting from Lesotho-based manufacturing enterprises.

Knowledge about export barriers specific to Lesotho will be beneficial to enterprises, policy makers and business educators. The knowledge will firstly, enable policy makers to identify areas where appropriate assistance should be provided. Business educators will be able to develop and implement suitable programmes in order to provide enterprises with skills to address exporting challenges. Furthermore, the knowledge about export barriers from a study originating from Lesotho will be beneficial to business managers operating in Lesotho as they will be able to take suitable measures proactively to overcome or reduce the impact of such barriers.

In order to answer the primary research question the following hypotheses were stated:

- H₁₀: Enterprise barriers do not constrain exporting from Lesotho-based manufacturing enterprises.
- H_{1a}: Enterprise barriers constrain exporting from Lesotho-based manufacturing enterprises.
- H₂₀: Product barriers do not constrain exporting from Lesotho-based manufacturing enterprises.
- H_{2a}: Product barriers constrain exporting from Lesotho-based manufacturing enterprises.
- H₃₀: Export market barriers do not constrain exporting from Lesotho-based manufacturing enterprises.
- H_{3a}: Export market barriers constrain exporting from Lesotho-based manufacturing enterprises.
- H₄₀: Macro environmental barriers do not constrain exporting from Lesotho-based manufacturing enterprises.
- H_{4a}: Macro environmental barriers constrain exporting from Lesotho-based manufacturing enterprises.
- H₅₀: Industry export barriers do not constrain exporting from Lesotho-based manufacturing enterprises.
- H_{5a}: Industry export barriers constrain exporting from Lesotho-based manufacturing enterprises.
- H₆₀: The perceptions of managers in Lesotho-based manufacturing enterprises toward export barriers do not vary according to industry.
- H_{6a}: The perceptions of managers in Lesotho-based manufacturing enterprises toward export barriers vary according to industry.
- H₇₀: The perceptions of managers in Lesotho-based manufacturing enterprises toward export barriers do not vary according to enterprise size.

H_{7a}: The perceptions of managers in Lesotho-based manufacturing enterprises toward export barriers vary according to enterprise size.

H_{8o}: The perceptions of managers in Lesotho-based manufacturing enterprises toward export barriers do not vary according to enterprise ownership structure.

H_{8a}: The perceptions of managers in Lesotho-based manufacturing enterprises toward export barriers vary according to enterprise ownership structure.

5.3. SAMPLING FRAME OR TARGET POPULATION

Cooper and Schindler (2003:188) define a sampling frame or target population as a list of elements from which a sample is drawn; in other words, a complete and correct list of population members only. According to Gay and Airasian (2000:122), the population is the group that is of interest to the researcher, the group to which the researcher would like the results of the study to be generalisable. The population for this study comprises all Lesotho-based manufacturing enterprises.

A list of manufacturing enterprises was obtained from the Ministry of Trade, Industry, Cooperative and Marketing (MTICM). According to this list, there are 158 small, medium and large enterprises and 351 micro enterprises in Lesotho. On examining the list of enterprises, it was evident that most enterprises on the list did not have information regarding their physical location or telephone numbers so it was difficult to use the list to locate the enterprises. Further, in an attempt to use the list by physically going to industrial areas to check whether enterprises existed or not, one found that some enterprises could not be located at all, while others were purported to have closed down; consequently, it was evident that the list was outdated and, therefore, it was discarded. The option of a census was thus no longer possible given the problems stated above, therefore, the researcher had to resort to sampling.

5.3.1. Sampling design

Sampling designs are grouped into two, namely; probability and non-probability samples (Mwanje, 2001: 91; Cooper & Schindler, 2003:183; Maree & Pietersen, 2007:172). Probability sampling, according to the aforesaid authors, ensures that each population element is given a known non-zero chance of selection and the requirement for probability sampling is that the size of the population should be known. Given that the official list of manufacturing enterprises could not be relied on, it meant that all population elements were unknown by the researcher and the probability sampling approach could not be utilised.

In non-probability sampling, each member does not have a known non-zero chance of being included and, therefore, this tends to result in biased samples (Gay & Airasian, 2000:136; Cooper & Schindler, 2003: 183-184; Mwanje, 2001:91). However, Maree and Pietersen (2007:176) note that non-probability samples have their advantages and would be applicable in the following situations:

- When there is limited time available for the study, that is, when results are needed urgently.
- When the measuring instrument needs to be tested.
- When preliminary studies have to be conducted in the development stage of a survey.
- When the researcher has limited funds available for the study.
- When the population size is difficult to ascertain.

Cooper and Schindler (2003: 200) also note that acceptable results can still be derived by using non-probability sampling if undertaken carefully. In some cases, according to the authors, non-probability sampling may be the only feasible alternative. In this study, a non-probability sampling approach was used because it was difficult to find a reliable sample frame, meaning that the non-probability sampling was the only feasible alternative.

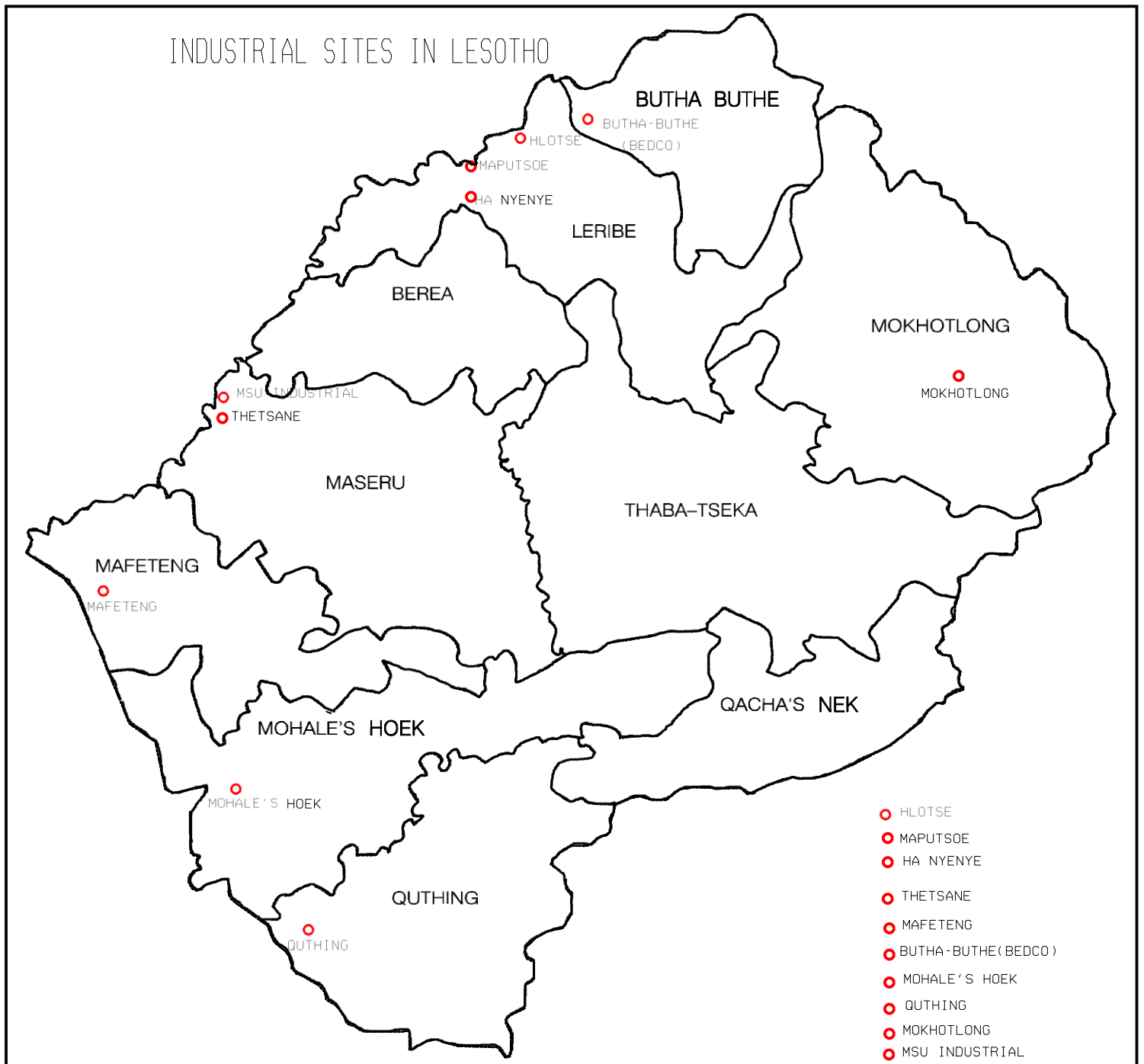
The following non-probability sampling methods can be identified (Gay & Airasian, 2000: 137-138; Cooper & Schindler, 2003:200-203; Maree & Pietersen, 2007:177-178; Cohen, Manion & Morrison, 2007:113-116):

- Convenience sampling – involves choosing the nearest individuals to serve as respondents. It is sometimes referred to as accidental or opportunistic sampling.
- Purposeful sampling – this approach has two elements, that is, judgemental and quota sampling. Judgemental sampling occurs when the researcher selects sample members that meet a required criterion. Quota sampling is also a method that attempts to select a sample that meets a certain criterion, but mostly, it is intended to improve representativeness. If, for instance, one studies a population that is represented by 55 percent females and 45 males, the quota sampling approach would aim to have a sample that has 55 to 45 percent ratios of females to males.
- Snowball sampling – is utilised where respondents are difficult to identify and are best located through referral networks.

In this study, judgmental sampling was utilised, in which case seven out of ten industrial areas, namely; Mohale's hoek, Mafeteng, Maseru (MSU) industrial, Thetsane, Maputsoe, Ha Nyenye and Hlotse, were visited and enterprises engaged in manufacturing were issued with a questionnaire, if they consented. Salm et al., (2002:13) mapped the industrial sites in Lesotho as illustrated in figure 5.2. Not all of the 10 industrial areas could be visited owing to financial constraints. The judgemental sampling approach meant that enterprises in the selected areas that were not engaged in manufacturing were excluded, that is, they were not issued with questionnaires.

The key-informant technique was employed. Key informants were managers directly responsible for international operations. In situations where enterprises did not have international operations managers, the Chief executive officers were approached. Only one response was obtained from each enterprise.

Figure 5.2: Industrial Sites in Lesotho



Source: Salm et al. (2002:13)

5.4. DATA COLLECTION

This is a process of assembling data. Data can be sub-divided into quantitative and qualitative data. According to Punch (2005:55-56), quantitative data is information in the form of numbers while qualitative data is mostly in the form of words. This study aimed to collect quantitative data. Data usually stem from a variety of sources, are captured on different scales of measurement, and each scale is based on the amount of information or the characteristics of the information of the data (Maree & Pietersen, 2007:147; Cohen et al., 2007:502). The four scales of data are nominal, ordinal, interval and ratio scales (Cooper & Schindler, 2003:223; Cohen et al., 2007:502).

5.4.1. Nominal scales

A nominal scale permits classification of data into subgroups in such a manner that each member of the subgroup possesses a common exhaustive and mutually exclusive characteristic. For example, a sample of subjects can be classified according to the variable gender, which in turn has two subgroups, males and females. The classification allows for only the measurement of the sameness or differences of the subgroups (Hussey & Hussey, 1997:150). According to Kumar (2005:67), the name chosen for a subcategory is notional, but for effective communication, it is best to choose something that describes the characteristics of the subcategory.

One is restricted to the use of the mode as a measure of central tendency while there is no measure of dispersion applicable to this scale. In social science and business research, nominal scales are probably more widely utilised than any others (Emory & Cooper, 1991:172; Blumberg, Cooper & Schindler, 2005:374). Nominal scales are useful in surveys and other ex post facto research to uncover relationships without giving precise measurements of the relations (Emory & Cooper, 1991:172; Blumberg et al., 2005:374). Section A, covering questions one to six; of the questionnaire relating to enterprise characteristics, utilised a nominal scale.

5.4.2. Ordinal scales

Ordinal scales have all the properties of a nominal scale plus one of its own. Ordinal scales permit data to be ranked in a certain order and as such, it is possible to determine whether some scores of subjects are greater or lower than others. Take for example, subjects' income measured using three classes where \$10 000 = below average, \$ 10 000 - \$25 000 = average and \$25 000 = above average (Kumar, 2005:68). The subcategory of "above average" indicates that people so grouped have more income than people in the "average" category and those in the "average" category have more income than those in the "below average" category. The appropriate measure of central tendency is the median. Percentile and quartile measures are utilised to reflect dispersion.

5.4.3. Interval scales

An interval scale has all the characteristics of both nominal and ordinal scales, but provides additional information regarding the degree of differences between individual data items within a set or group (Cooper & Schindler, 2003:228; Maree & Pietersen, 2007:148). According to Cohen et al. (2007:502), the interval scale introduces a metric – a regular and equal interval between each data point. For example, the difference between 10 °C and 20 °C is the same as the difference between 30 °C and 40 °C; however, 20 °C is not twice as hot as 10 °C (Maree & Pietersen, 2007:148).

An interval scale is useful for placing individuals or responses in relation to each other with respect to the magnitude of the measuring variable (Kumar, 2005:70).

Section B, covering questions 7.1 to 7.45, relating to the measurement of export barriers or constraints perceived and experienced by Lesotho-based manufacturing enterprises on a five point-Likert scale with one representing "Not at all" and five representing "To a great extent", utilised an ordinal scale.

5.4.4. Ratio scales

A ratio scale possesses all the properties of nominal, ordinal and interval scales plus its own property. The difference between intervals is always measured from a zero point. The measurement of income, age, height, time and weight are examples of this scale (Hussey & Hussey, 1997:151; Kumar, 2005:70). The advantage of using a ratio scale is that any statistics could be utilised on data collected in this form (Hussey & Hussey, 1997:151).

In behavioural science, few situations satisfy the requirements of the ratio scale; however, in business research, ratio scales are found in many areas such as population counts, return rates and distance, to mention a few (Emory & Cooper, 2005:176; Blumberg et al., 2005:376). Table 5.1 below presents the statistical techniques that are applicable for the type of data discussed above.

5.5. INSTRUMENT DESIGN

There are various means of collecting data such as observational forms, questionnaires and standardised tests to mention but a few (Cooper & Schindler, 2003:87). According to Leonidou, Katsikeas and Piercy (1998:84), the use of a certain means of collecting data is dependent on the size of the sample where mail questionnaires are employed for a relatively large population or sample while personal interviews are associated with smaller sample sizes.

Kumar (2005:119) considers the data collection method as a function of the purpose of the study, available resources and the skills of the researcher. Thus, the factors influencing the selection of data collection methods encompass the population or sample size, purpose of the study and researcher's preference and or abilities.

The researcher chose a questionnaire for collecting data in this study. The questionnaire entailed structured questions with the exception of questions

one and five which were open-ended. The questionnaire was divided into two sections. Section A (questions one to six) comprised enterprise characteristics while Section B (questions 7.1 to 7.43) measured export barriers using a five-point Likert scale. Export barrier items were obtained from different authors, namely Da Silva and Da Rocha (2001); Salm et al., (2002); Suárez-Ortega, (2003); Leonidou (2004); Leonidou et al., (2007), and Tesfom and Lutz (2006). A total of 45 export barrier items were selected. Care was taken not to duplicate the barriers drawn from the six research sources.

5.5.1. Pre-testing

In pre-testing, an instrument is subjected to checks and trials. There are numerous reasons for pre-testing an instrument which have to do with the identification of the deficiencies and suggestions for the improvement of the instrument (Gay & Airasian, 2000:287; Cooper & Schindler, 2003:389; Cohen et al., 2007:341). Cohen et al. (2007:341), and Cooper and Schindler (2003:389) identify the items below as reasons for pre-testing:

- To check the clarity of the questionnaire items, instructions and layout;
- To gain feedback on the validity of the questionnaire items, the operationalisation of the constructs and the purpose of the research;
- To eliminate ambiguities or difficulties in wording;
- To check readability levels for the target audience;
- To gain feedback on the type of question and its format (e.g., rating scale, multiple choice, open or closed questions, etc.);
- To gain feedback for the appropriateness of specific questions;
- To identify omissions, redundant and irrelevant items;
- To identify commonly misunderstood or non-completed items;
- To discover participants' reactions to the questions;
- To check the time taken to complete the questionnaire; and
- To gain feedback on the layout, the sections, the numbering and the itemisation of the questionnaire.

Table: 5.1: Recommended Statistical Techniques by measurement level and testing situation

	One-Sample Case	Two-Samples Case		K-Samples Case	
Measurement level		Related samples	Independent samples	Related samples	Independent samples
Nominal	<ul style="list-style-type: none"> • Binominal • X² One sample 	<ul style="list-style-type: none"> • McNemar 	<ul style="list-style-type: none"> • Fisher exact test • X² Two sample test 	<ul style="list-style-type: none"> • Cochran Q 	<ul style="list-style-type: none"> • X² for k samples
Ordinal	<ul style="list-style-type: none"> • Kolmogorov-Smirnov one-sample test • Runs tests 	<ul style="list-style-type: none"> • Sign test • Wilcoxon matched-pairs test 	<ul style="list-style-type: none"> • Median test • Mann-Whitney U • Kolmogorov-Smirnov • Wald-Wolfowitz 	<ul style="list-style-type: none"> • Friedman two-way ANOVA 	<ul style="list-style-type: none"> • Median extension • Kruskal-Wallis one-way ANOVA
Interval and Ratio	<ul style="list-style-type: none"> • t-test • Z test 	<ul style="list-style-type: none"> • t-test for paired samples 	<ul style="list-style-type: none"> • t-test • Z test 	<ul style="list-style-type: none"> • Repeated-measures ANOVA 	<ul style="list-style-type: none"> • One-way ANOVA • N-way ANOVA

Source: Cooper and Schindler (2003:534)

During its initial stages of development the instrument underwent a rigorous evaluation by academics in the Department of Business Management of the University of Pretoria and the Department of Business Administration of the University of Lesotho who are knowledgeable about the subject and in the process the suggestions for improvement were adopted. Later, the instrument was tested in the field with four enterprises. The questionnaires were fully completed. The participants felt that the questionnaire was clear enough, understandable and the time required to complete the questionnaire was acceptable. The questionnaire took between twenty and thirty minutes to complete. Having encountered no difficulties in the pilot study there was, therefore, no need for adjustments to the instrument.

5.5.2. Response rate

A major difficulty in survey research is securing a sufficiently high response rate (Cohen et al., 2007:223; Cooper & Schindler, 2003:342). Non-response is problematic as it creates a non-representative sample which results in a bias (Punch, 2005:101; Cooper & Schindler, 2006:250). According to Cohen et al. (2007:223), a number of activities could be employed to reduce a non-response, namely:

- Arranging follow-ups and polite reminders;
- Sending advance notification of the survey;
- Providing return envelopes for mail surveys;
- Offering financial incentives;
- Giving rewards for the return of the questionnaire;
- Ensuring that surveys are easy to read;
- Making instructions about responses and returns very clear;
- Providing information about research in a covering letter and or advance notification; and
- Delivering the questionnaire personally rather than through the mail.

In order to increase the response rate, the researcher ensured that the questionnaire was easy to read and follow. Further, the questionnaire included a covering letter explaining the purpose of the research so that it was easy for respondents to make a decision about whether or not to participate. A drop and pick approach was also

utilised, that is, personally delivering and collecting the questionnaire so that the participants could associate the questionnaire they were completing with a person. A total of 171 manufacturing enterprises were located and issued with questionnaires. Of the 171, nine enterprises had failed to complete the questionnaires by the end of the collection period, which took three months. It means that a total of 162 questionnaires were completed, translating into a 94.7 percent response rate.

5.5.3. Preparing data for analysis

Data preparation includes editing, coding and data entry (Cooper & Schindler, 2003:454). The preparation stage is necessary because a research study usually produces a mass of raw data in order to facilitate data analysis; such data must be accurately scored and systematically organised (Gay & Airasian, 2000:433). Editing of the data was carried out at the time of the collection of each questionnaire by checking that all questions had been answered. Another step in the preparation of data involves coding. Coding concerns assigning numbers or other symbols to answers so that the responses can be grouped into a limited number of classes or categories. For example, the gender of the participants may be recorded as “M” or “F” instead of using the words *male and female* (Gay & Airasian, 2000:434; Cooper & Schindler, 2003:456).

In this study, the questionnaire was pre-coded for all questions except for questions 1 and 5, which were open-ended. Based on the responses of the participants for these two questions, a code structure was constructed and the responses were then coded accordingly. The coding in this study utilised numbers from one upwards. Data, using the codes, were subsequently captured using Statistical Analysis Software (SAS).

5.5.4. Validity and reliability

A good measurement tool should be both reliable and valid (Babbie & Mouton, 2001:118; Emory & Cooper, 2005; 189; Cooper & Schindler, 2003:240).

5.5.4.1. Validity

According to Punch (2005:97), validity is the extent to which a measuring tool measures what it claims to measure. Babbie and Mouton (2001:123) define validity as the extent to which an empirical measure adequately mirrors the real meaning of the concept under consideration. A valid measurement tool is one that provides an inference from the observation, which is reasonably close to the construct one aims to measure. The following three areas of validation of an instrument can be distinguished.

- **Content validity**

According to Punch (2005:97), content validity focuses on whether the full content of a conceptual definition is represented in the measure. Babbie and Mouton (2001:123) define content validity as the extent to which a measure covers the range of meanings included within the concept. A measurement tool with content validity is one that encompasses the relevant content under study. Cooper and Schindler (2003:232) argue that content validity can be measured by judgemental or panel evaluation. According to Pietersen and Maree (2007:217), the researcher usually presents a provisional version to experts in the field for their comments before finalising the instrument in order to ensure the content validity of an instrument. In this study, a comprehensive literature review was carried out to ensure the content validity of the instrument. As indicated earlier, the export barriers identified come from other studies such as those of da Silva and da Rocha (2001); Salm et al., (2002) and Suárez-Ortega (2003). In addition as mentioned earlier, academics from the Department of Business Management of the University of Pretoria and the Department of Business Administration of the University of Lesotho who are knowledgeable in the subject were furnished with an instrument at its initial stages of development and requested to comment thereon; their comments were adopted in order to develop a questionnaire which covered content relating to export barriers.

- **Criterion-related validity**

This relates to concurrent and predictive validity (Punch, 2005:97; Babbie & Mouton, 2001:123). According to Punch (2005:97), criterion-related validity is present in a measurement tool when an indicator agrees with another external measure of the

same construct in which the researcher has confidence. Babbie and Mouton (2001:123) define criterion-related validity as a predictive validity where an indicator can predict the future behaviour of the subject in another related matter. Criterion-related validity means that an external criterion is utilised to validate the results; the criterion could be current or it could exist in the future.

- **Construct validity**

According to Zikmund (2003:303), construct validity is achieved if a measure behaves the way it is supposed to, that is, in a pattern of intercorrelation with a variety of other variables, while Babbie and Mouton (2001:123) indicate that construct validity is the extent to which the measurement tool displays presupposed logical relationships among variables. Construct validity is, therefore, the extent to which a measure conforms to theoretical expectations. Factor analysis was utilised to test construct validity. Factor analysis according to Cooper and Schindler (2003:614, 635), looks for patterns among the variables in order to discover an underlying combination of the original variables (factors) that can summarise the original set. Pietersen and Maree (2007:219), on the other hand, regard the purpose of factor analysis as that of determining, from a list of variables, items that “belong together” in the sense that they are answered similarly and therefore measure the same dimension or factor. Factor analysis was performed on 45 items using SAS. The rule of thumb suggests that the number of factors is equal to the number of eigenvalues greater than one (Pietersen & Maree, 2007:220; Cohen et al., 2007:563). Another approach of determining the number of factors, according to the aforementioned authors, is to examine the scree plot or eigenvalues histogram. A scree plot or eigenvalues histogram is a pictorial display of factors in descending order of magnitude (Cohen et al., 2007:564; Pietersen & Maree, 2007:220). Usually the scree plot flattens at a certain point and the number of factors above the point where the scree point flattens indicates factors that account for much of the variance and, therefore, should indicate the number of factors to be considered. In this study, the scree plot or eigenvalues histogram approach was adopted. The researcher did a factor analysis on five factors she believed would emerge based on the literature and stated hypotheses. The scree plot or eigenvalues histogram was subsequently analysed to determine the factors. The scree plot did not exhibit five factors as

expected, but instead, three factors were identified; therefore, a three factor analysis was run.

Another output of factor analysis displays variables that belong together, thus forming a factor. According to Cohen et al. (2007:568) and Pietersen and Maree (2007:220), the researcher uses his or her judgement to decide on the cut-off point of variables that will be included to form a factor; mostly variables with high values are included. In addition, according to the said authors, the variables have to be conceptually related. Cohen et al. (2007:568) note that variables should not only have high values, but should also have values that are close to each other (that is they are to be homogeneous). The loadings for each variable were scrutinised in order to decide which variables to classify under each factor. The variables that loaded high in more than one factor were dropped. Also variables that did not load high with anyone factor were excluded. These were variables that loaded less than 0.250. Finally, the factors were named.

5.5.4.2 Reliability

Reliability means consistency (i.e., consistency over time or stability and internal consistency) of a measuring tool (Babbie & Mouton, 2001:119; Schindler & Cooper 2003:236; Punch, 2005:95). A measuring tool is stable if it is capable of producing similar scores for repeat observations. There are a number of different types of reliability (Pietersen & Maree, 2007:215; Punch, 2005:95; Cooper & Schindler, 2003:237; Gay & Airasian, 2000:176) namely:

- Test-retest reliability: this type of reliability of an instrument is determined by administering the instrument to the same subjects on two (or more) occasions. The first set of scores is then compared with the second set by calculating a correlation coefficient. Such a coefficient will take a value close to zero if the instrument has low reliability and close to one if it has high reliability.
- Equivalent form reliability: this type of reliability is obtained by administering the instrument and then on the second occasion, administering an equivalent instrument measuring the same construct to the same subjects. The two sets of scores are compared by means of a correlation coefficient.

- Split-half reliability: in this type of reliability the items that make up the instrument are divided into two, forming two separate instruments. The scores of these two separate “half instruments” are then compared by means of a correlation coefficient.
- Internal reliability also called internal consistency: in this type of reliability, a number of items are formulated to measure a certain construct. There should be a high degree of similarity among them since they are supposed to measure one common construct. The coefficient that is utilised to measure the internal reliability of an instrument is called Cronbach’s alpha (α). The Cronbach’s alpha coefficient is based on the inter-item correlation. It is indicated that if the items are strongly correlated with each other, their internal consistency is high and the alpha coefficient will be close to one. On the other hand, if the items are poorly formulated and do not correlate strongly, the alpha coefficient will be close to zero.

Pietersen and Maree (2007:216) and Cohen et al. (2007:506) concur that the different degrees of internal reliability are required and mostly depend on what an instrument has to be utilised for. They maintain that a Cronbach’s alpha from 0.70 indicates that the instrument is reliable (see table 5.2). In this study, the type of reliability that is measured is internal consistency. The coefficient that was utilised to measure the internal reliability of the instrument is Cronbach’s alpha where the acceptable level is 0.70 and higher.

Guidelines for the interpretation of Cronbach’s alpha are provided in table 5.2 below:

Table: 5.2. Guidelines for interpretation of Cronbach’s alpha

Pietersen and Maree (2007:216)	Cohen et al. (2007:506)
<ul style="list-style-type: none"> • 0.90- high reliability • 0.80-moderate reliability • 0.70-low reliability 	<ul style="list-style-type: none"> • >0.90- very high reliability • 0.80-0.90- high reliability • 0.70-0.79- reliable • 0.60-0.69- insignificant level of reliability • <0.60- unacceptably level of reliability

5.6. DATA ANALYSIS

Visser (2002:182) defines data analysis as the application of reasoning to data collected about the subject(s) so that it can be understood. According to Babbie and Mouton (2001:460), data analysis is the reduction of data from unmanageable detail to manageable summaries. Data analysis is, therefore, a process of reducing large quantities of data to a manageable size to which logical thinking is then applied in order to understand the problem at hand. The first step in data analysis is to describe or summarise the data using descriptive statistics (Gay & Airasian, 2000:437; Pietersen & Maree, 2007:183).

5.6.1 Descriptive statistics

Descriptive statistics do exactly that; they describe and present data, for example, data can be presented in terms of summary frequencies (Cohen et al., 2007:503-504). Demographic information in this study is presented graphically in the form of histograms in order to illustrate the distribution pattern of the participants. Furthermore, the pattern results regarding the perceptions of participants of export barriers are illustrated by the mean scores.

5.6.2 Analysis of variance

A further analysis in the study was to investigate the differences in perceptions towards export barriers between manufacturing enterprises of different demographics.

Analysis of variance (ANOVA) was utilised to determine whether there is a statistically significant difference between two or more means and the ANOVA uses the F-test to detect significant differences (Gay & Airasian, 2000:491; Cooper & Schindler, 2003:546; Pietersen & Maree, 2007:229). The F-test computation is presented by the formulae below (Cooper & Schindler, 2003:547; Cohen et al., 2007:547):

$$F = \frac{\text{Between group variance}}{\text{Within group variance}}$$

ANOVA assumes that there is no statistically significant difference between the means of the groups that are being compared. Therefore, the null hypothesis and alternative hypotheses will appear as follows (Gay & Airasian, 2000:491; Cooper & Schindler, 2003:549; Pietersen & Maree, 2007:229-230):

H₀: $\mu_1 = \mu_2 = \mu_3 = \mu_4$

H_a: The means are not equal

The researcher also has to set the level of significance. The most common level is 0.05 (Cooper & Schindler, 2003:529), which is the significance level (α) selected in this study.

The other important value produced by ANOVA is the p-value (Pietersen & Maree, 2007:230). P-value is the probability of observing a sample value as extreme as or more extreme than the value actually observed, given that the null hypothesis is true (Cooper & Schindler, 2003:530; Pietersen & Maree, 2007:230). The p-value is compared to the significance level, and on the basis of the position of the p-value and the significance level, the null hypothesis is either rejected or not rejected (Cooper & Schindler, 2003:530; Pietersen & Maree, 2007:230).

The p-value guides the rejection or non rejection of the null hypotheses in the following manner:

P-value < α = reject null hypotheses because this suggests that the means are not equal.

P-value > α = do not reject null hypotheses because it suggests that the means are equal.

However, on comparing the p-value with the significant level (α) this does not indicate which groups differ from each other. A number of tests can be employed to group together subsamples whose means are not statistically different from each other and to place them in a different group from a group whose means are statistically significantly different (Cohen et al., 2007:548). In this study, Duncan's multiple range test was utilised to distinguish the groups whose means were not

statistically different from a group whose means were statistically significantly different.

5.7. CONCLUSION

Following a brief review on the introduction of the study, problem statement and restatement of the hypotheses, the chapter provided a description of the methodology applied in this study.

The researcher selected a non-probability sampling technique because the official list of manufacturing enterprises obtained from the Ministry of Trade, Industry, Cooperatives and Marketing could not be relied on owing to its limitations. A total of 171 enterprises were located as the researcher physically searched for manufacturing enterprises within the seven industrial areas. A total of 162 questionnaires were completed from the 171 that were issued, translating into a 94.7 percent response rate. A questionnaire was utilised to collect data and before conducting the survey, an instrument was pre-tested. The instrument design also ensured validity and reliability. Content validity was ensured through an intensive literature review and the evaluation of the instrument by experts who are knowledgeable in the field. A factor analysis was conducted to test for construct validity, while Cronbach's alpha was utilised to test the reliability of the instrument. Acceptable estimates for Cronbach's alphas were set at above 0.70. Analysis of variance (ANOVA) was selected to determine the differences in perception of export barriers between enterprises of different characteristics. The results of the data analysis are discussed in the next chapter.

CHAPTER 6

EMPIRICAL ANALYSIS AND INTERPRETATION OF RESULTS

6.1 INTRODUCTION

This chapter presents the empirical analysis and interpretation of results. The first part of the chapter centres on the presentation and discussion of the demographic data covered by Section A of the questionnaire. Then the discussion on results pertaining to Section B of the questionnaire that relates to factors constraining exporting of Lesotho based manufacturing enterprises follows. The discussion pertaining to Section B firstly elaborates on the validity and reliability test results. Secondly, the discussion focuses on the Analysis of Variance (ANOVA) relating to whether a statistically significant difference exists among enterprises with different characteristics. Lastly, the chapter reports on the descriptive statistics regarding exporting constraints from Lesotho based manufacturing enterprises.

6.2 DEMOGRAPHIC INFORMATION

Section A of the questionnaire related to demographic information.

Table 6.1: Age profile of Lesotho based manufacturing enterprises

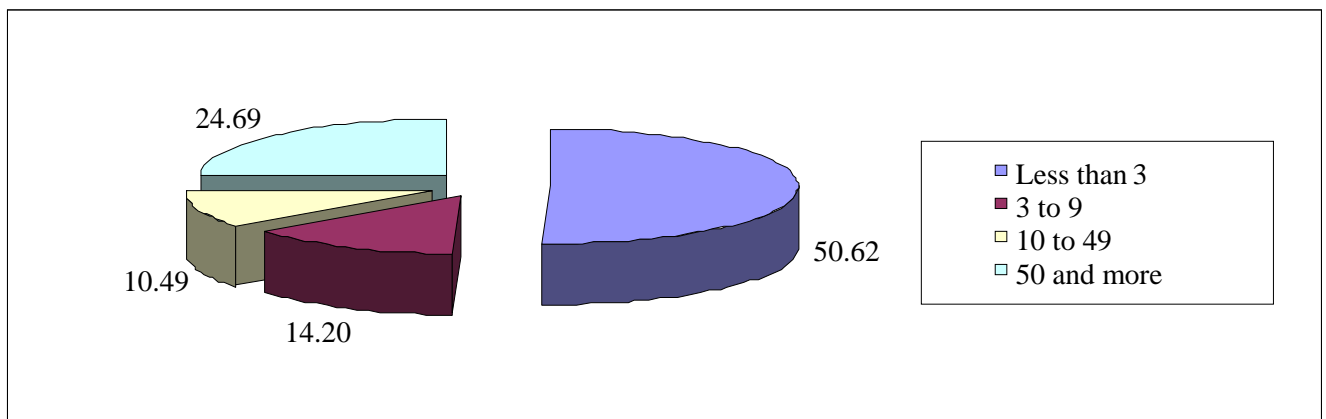
Years of operation	Frequency	Percentage
0 – 5	58	35.80
6 – 10	47	29.01
11 – 15	24	14.82
16 – 20	14	8.64
21 and above	19	11.73
Total	162	100.00

As can be seen from table 6.1, the majority of enterprises, totalling 58 (representing 35.80 percent of the respondents) have operated in Lesotho for a period ranging from 0 to 5 years, followed by 47 respondents (29.01 percent) who have operated in Lesotho for a period ranging from 6 to 10 years. While 24 respondents, (representing

14.82 percent) have operated in Lesotho for a period which ranges from 11 to 15 years, with the remaining 33 (representing 20.37 percent having operated in Lesotho for 16 years or more. As noted in Chapter 1, the AGOA was signed in 2000 (MIGA, 2006:23; CBL, 2006(b): 2; Langton, 2008:1) meaning that by 2011, AGOA had been in operation for 11 years. One, therefore, notices a relationship between the establishment of enterprises in Lesotho and the AGOA agreement. As shown in table 6.1, many manufacturing enterprises emerged in Lesotho following AGOA as 105 out of 162 enterprises (that is 64.81 percent) that participated in the study have operated in Lesotho for 10 years or less.

The size of the enterprises that took part in this study was measured by looking at the number of employees, employed by the enterprise. From figure 6.1 it can be seen that 50.62 percent of the enterprises are micro enterprises, followed by 24.69 percent who are large enterprises while 14.20 percent are small and 10.49 are medium. These findings support the findings of ECI Africa (2006:30), as the report determined that 67 percent of enterprises in Lesotho in 2004 were micro enterprises, while the proportion of small enterprises were 8 percent, medium and large enterprises were 14 and 11 percent respectively.

Figure 6.1: Enterprise size based on number of employees



While the MIGA (2006:23) notes that Lesotho attracted a large inflow of FDI into export-oriented manufacturing with the signing of AGOA in 2000, the findings of this study demonstrate that local enterprise still makes up the largest proportion of the manufacturing sector as can be seen in table 6.2.

Table 6.2: Ownership structure of Lesotho based manufacturing enterprises

Ownership structure	Frequency	Percentage
100 % locally owned	101	62.35
100 % foreign owned	52	32.09
Joint ownership (local & foreign)	9	5.56
Total	162	100.00

Figure 6.2 depicts the ownership structure of the enterprises.

Figure 6.2: Enterprise ownership structure profile

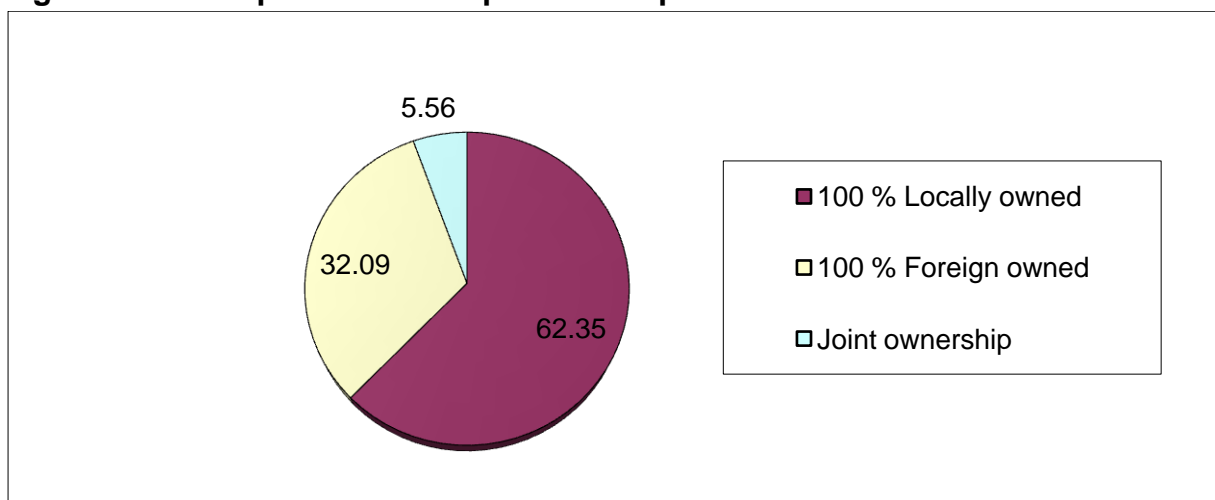


Table 6.3 shows the exporting status of the 162 enterprises in this study. The respondents are categorised into 10 exporting status profiles as shown in table 6.3. There are three large groups. First there are 44 enterprises (representing 27.16 percent of the respondents) that have not exported and do not plan to export. The second group is made up of 31 enterprises (representing 19.14 percent of the respondents) that have not exported but would export if they get export orders. While the third group consists of 29 enterprises (representing 17.90 percent of the respondents), are currently exporting between 76 and 100 of their production.

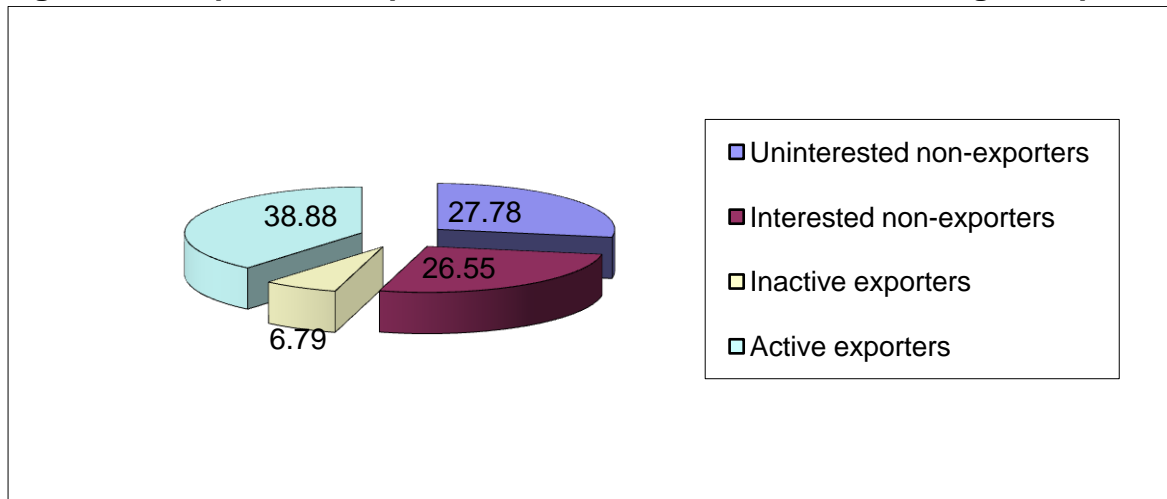
In analysing the exporting status of enterprise as reflected in table 6.3 one can identify four categories of enterprise (see figure 6.3). The first classification is that of enterprises that are named uninterested non-exporters (represented by response 1 and 4 from table 6.3), that is enterprises that are currently not exporting and do not intend to do so in future.

Table 6.3: Exporting status profile of Lesotho based manufacturing enterprises

#	Exporting status	Frequency	%
1	Our enterprise has not exported and would not export, even when buyers from foreign countries want to place an order with us.	44	27.16
2	Our enterprise has not exported but would export if we get order(s) from buyers in foreign countries.	31	19.14
3	Our enterprise has not exported but plans on doing so in future.	4	2.47
4	Our enterprise has exported in the past, but is not currently engaged in, and does not plan to export in the future.	1	0.62
5	Our enterprise has exported in the past, but is not currently engaged in exporting. However, we plan on exporting in the future.	8	4.94
6	Our enterprise does not actively look for export orders outside Lesotho but we export when we get orders from foreign consumers.	11	6.79
7	Our enterprise is currently exporting. Currently export sales are less than 10% of production.	17	10.49
8	Our enterprise is currently exporting. Currently export sales are between 10% and 50% of production.	8	4.94
9	Our enterprise is currently exporting. Currently export sales are between 51% and 75% of production.	9	5.55
10	Our enterprise is currently exporting. Currently export sales are between 76% and 100% of production.	29	17.90
Total		162	100.00

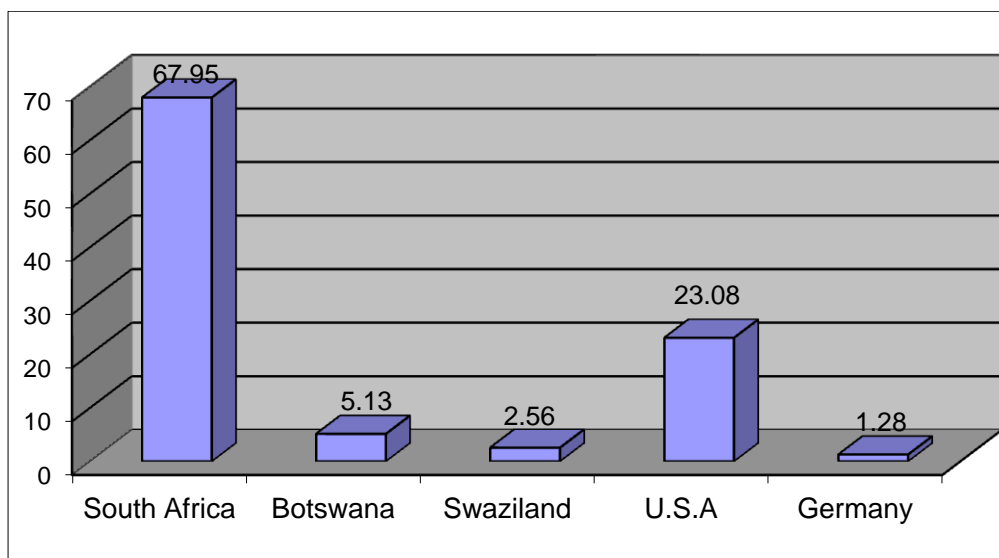
Another class is that of interested non-exporters (represented by response 2, 3 and 5 from table 6.3), enterprises that are not exporting but are interested in doing so. The third category is called inactive exporters (represented by response 6 from table 6.3) as they are enterprises that do not actively look for orders from foreign market but have received foreign orders and export when such orders are received. The final category is made up of active exporters (represented by response 7, 8, 9 and 10 from table 6.3) who only differ in their export sales as a percentage of production.

Figure 6.3: Export status profile of Lesotho based manufacturing enterprises



While the study did not set out to determine the reasons why non-exporting enterprises do not export, based on the findings of the study, it can be seen that 27.78 percent of manufacturers in Lesotho do not export because they are not interested in exporting in a way is a constraint in itself.

Figure 6.4: Destination of exports from Lesotho



The dominant destination of exports based on revenue generated for exporters are shown in figure 6.4 and table 6.4. Of the 79 exporting respondents, only one respondent did not provide an answer to question 5.

Table 6.4: Destination of exports from Lesotho

Destination	Frequency	Percentage
South Africa	53	67.95
Botswana	4	5.13
Swaziland	2	2.56
United States of America	18	23.08
Germany	1	1.28
Total	78	100.00

It can be seen from figure 6.4 and table 6.4 that exports from Lesotho are predominantly destined for South Africa followed by the U.S.A. with a very low percentage going to Botswana, Swaziland and Germany. The results support the literature where Lall (2005: 1003), noted that the USA accounted for 33.7 percent of Lesotho's total exports while Africa (predominately South Africa) accounted for 53.5 percent.

Table 6.5: Percentage of exports to South Africa and the USA prior to and after the signing of the AGOA

Prior to the signing of the AGOA	Period	South Africa	USA
Prior to the signing of the AGOA	1996	58.4	32.0
	1997	79.1	20.3
	1998	56.3	42.9
	1999	50.0	49.4
After the signing of the AGOA	2000	27.7	71.6
	2001	53.0	38.6
	2002	39.6	51.0
	2003	19.4	79.1
	2004	18.0	68.8
	2005	99.8	0.2
	2006	16.3	83.6
	2007	43.6	52.3
	2008	39.9	53.5

Source: Bureau of Statistics (2010:15)

While the study supported by Lall's (2005:1003) findings indicates South Africa as the dominant market for exports from Lesotho, Langton (2008:7-9) acknowledges the important role of the USA market to sub-Saharan Africa (SSA) countries. Bureau of Statistics (2010:15) in agreement with Langton (2008:7-9) shows that exports from Lesotho to the USA, though the pattern is not stable, are higher than exports to South Africa especially after the signing of the AGOA that is from 2000 (see table 6.5). On the other hand exports from Lesotho to South Africa prior to AGOA were higher than exports to the USA.

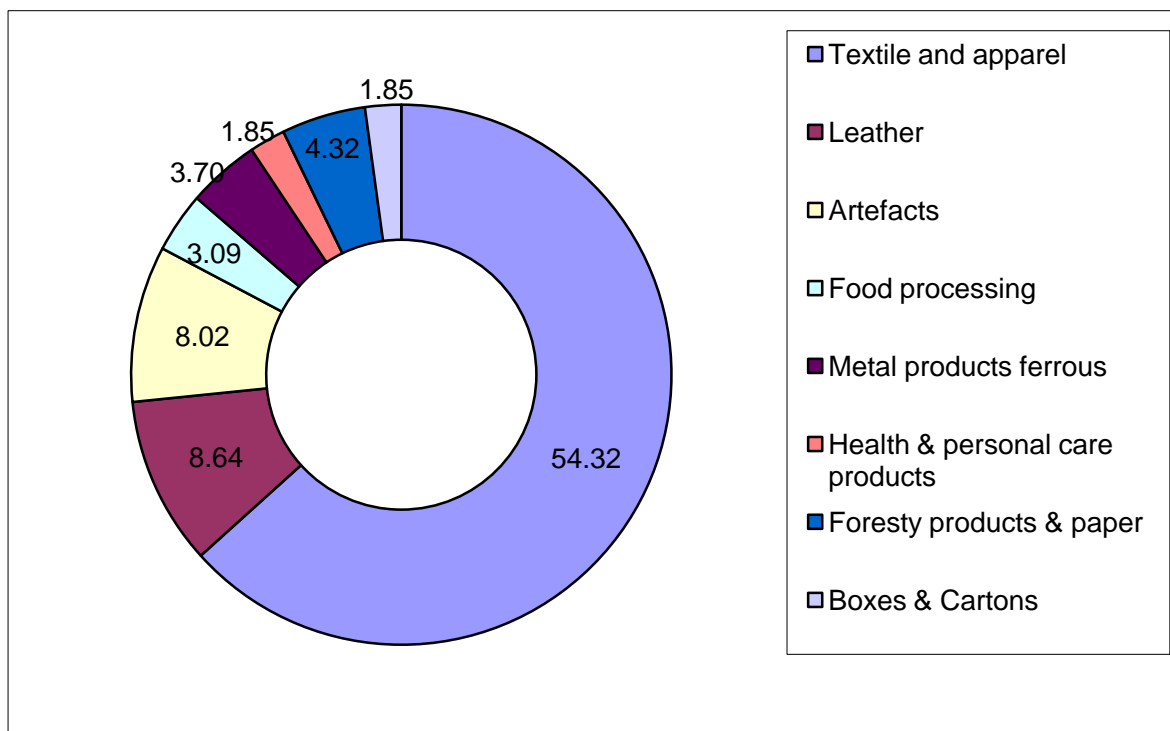
The respondents cover a wide range of the manufacturing sector. A total of 19 categories have emerged from the results (table 6.6).

Table 6.6: Lesotho based manufacturing enterprises per industry

Type of industry	Frequency	%
Food processing	5	3.09
Health & personal care products	3	1.85
Leather/rubber/plastic materials	14	8.64
Ferrous metal products	6	3.70
Forestry products & paper, furniture & fixings	7	4.32
Industrial, commercial machinery	1	0.62
Beverages & tobacco	1	0.62
Pharmaceuticals	1	0.62
Textiles & apparel	88	54.32
Glass & ceramics	1	0.62
Artefacts	13	8.02
Boxes & Cartons	3	1.85
Building materials	6	3.70
Pottery	3	1.85
Footwear	1	0.62
Electrical appliances	4	2.47
Wool materials	3	1.85
Steel works	1	0.62
Other clothes	1	0.62
Total	162	100.00

According to MIGA (2006:23), textiles and apparel is the major manufacturing category in Lesotho and the results of this study supports this as textile and apparel enterprises represent 54.32 percent of the respondents followed by leather/rubber/plastic manufacturing, totalling 14 enterprises or 8.64 percent of the respondents. According to the Congressional Research Service (2003:15, 25) and Langton (2008:8, 24), exports from SSA countries under AGOA have been predominately energy-related products but textile manufacturing is making a growing part of exports to the USA. It is noted that Lesotho has very little natural resources (Matsoha & Visser, 2001:84; Lall, 2005:999; MIGA, 2006:23) explaining its concentration in the exports of textile and apparel hence textile and apparel being the major manufacturing sector.

Figure 6.5: Lesotho based manufacturing enterprises per industry



6.3 VALIDITY

Exploratory factor analysis as discussed in Chapter 5 is a validity test that is meant to reduce to a manageable number many variables that belong together and have overlapping measurement characteristics. While the number of variables is reduced

the underlying combinations of the original variables is retained within the new set of variables (Cooper & Schindler, 2003:613). In this study 45 export constraints taken from the literature were presented in Section B of the questionnaire to enterprises where respondents were asked to rate the extent of each barrier/constraint on a five-point Likert-type scale. The number one represented “not at all” and five represented “to a great extent”. While the number three is an indication of a neutral response represented by “no opinion”, number two and four represented “not much” and “to some extent” respectively.

Table 6.7: List of items that were eliminated from the factor analysis based on double or no loading

Coding Number	Variable
V7	Lack of knowledge of export procedures
V8	Unable to identify opportunities in foreign markets
V15	Lack of managerial time to deal with exports
V16	Difficulties in finding qualified people to perform certain tasks associated with exporting
V19	Difficulty in developing new products for foreign markets
V22	Unable to allow credit to foreign customers
V25	Slow collection of payments from foreign clients
V27	Low demand for the enterprise’s products in foreign market
V34	High tariffs charged on exports on entry into foreign markets
V38	Delays in sending monthly electricity bills by Lesotho Electricity Corporation resulting in power supply cut to factories for non-payment
V39	Insufficient water supply to factories
V47	Increasing absenteeism and deaths among the workforce predominantly from HIV/Aids
V48	Unreliable supply of raw materials
V51	Poor economic conditions abroad

In doing exploratory factor analysis, the researcher did a factor analysis on five factors believed would emerge based on the literature and the stated hypotheses.

Table 6.8: Factor matrix with sorted rotated factor loadings

Coding number	Variables	Factor 1	Factor 2	Factor 3
V33	High insurance cost to cover products while in transit to foreign markets	0.821	0.000*	0.000
V30	Risk and variations in exchange rates	0.743	0.000	0.000
V43	Corruption in Lesotho	0.737	0.000	0.000
V31	Difficulty in supplying inventory abroad	0.706	0.000	0.000
V32	High transport costs for transporting products to foreign markets	0.697	0.000	0.000
V44	Corruption in the targets market	0.675	0.000	0.000
V42	Unsuitable storage facilities for the containers at Lesotho railway terminal	0.636	0.000	0.000
V41	Inadequate container-handling facilities at Lesotho railway terminal	0.628	0.000	0.000
V45	Political problems in Lesotho	0.607	0.000	0.000
V29	Difficulties meeting after sale service to customers abroad	0.574	0.000	0.000
V26	The challenge of having to deal with foreign customers that have different habits	0.564	0.000	0.000
V50	Political instability in the foreign markets that the enterprise wishes to serve	0.546	0.000	0.000
V35	Restrictions on the quantity that is allowed by foreign markets to enter their countries	0.535	0.000*	0.000
V18	Difficulty in meeting packaging requirements	0.469	0.000	0.000
V23	Lack of own internationally recognised brand names	0.477	0.000	0.000
V40	Poor telecommunication services	0.414	0.000	0.000
V20	Unable to adapt the enterprise's products to export market's requirements	0.356	0.000	0.000

* All loadings less than 0.250 were indicated as 0.000

Table 6.8: Cont. Factor matrix with sorted rotated factor loadings

Coding number	Variables	Factor 1	Factor 2	Factor 3
V28	Difficulty in meeting foreign delivery dates	0.486	0.000	0.000
V36	Low labour productivity in Lesotho	0.464	0.000	0.000
V46	Industrial unrest in Lesotho resulting from employees' strike	0.500	0.000	0.000
V37	High cost of labour in Lesotho	0.498	0.000	0.000
V17	Difficulty in meeting product quality standards	0.417	0.000	0.000
V24	Lack of acceptance of Lesotho's products in the markets the enterprise wishes to serve	0.485	0.000	0.000
V11	Difficulty in maintaining control over foreign middlemen that the enterprise will be using	0.000	0.993	0.000
V10	Difficulty in obtaining reliable middlemen abroad	0.000	0.941	0.000
V9	Difficulty in communicating with clients overseas	0.000	0.719	0.000
V13	Lack of finance for market research	0.000	0.000	0.971
V12	Lack of financial resources to finance export sales	0.000	0.000	0.935
V14	Lack of excess manufacturing capacity for exports	0.000	0.000	0.425
V21	Lack of awareness of export assistance available in Lesotho	0.000	0.000	0.415
V49	Difficulty in matching competitor's prices	0.000	0.000	0.359

* All loadings less than 0.250 were indicated as 0.000

Based on the scree plot/eigenvalues histogram of the factor analysis of five factors three factors emerged. The three factor analysis was then run and the scree plot/eigenvalues histogram of the factor analysis of three factors confirmed the three factors (see table 6.9 which shows the eigenvalues for the three identified factors).

As noted in Chapter 5, the researcher has to make a professional judgement with regard to variables that should be included for each factor (Pietersen & Maree, 2007:221; Cohen et al., 2007:568). First, loadings for each variable were scrutinised.

Each variable was classified under a factor in which it loaded high. Secondly, a judgement call was made on whether to include variables that loaded high with two factors (double loading) to either include them under one factor or to exclude them. Finally, variables that did not load high with any one factor were excluded. These are variables that loaded less than 0.250. A total of 14 variables that loaded high in more than one factor or did not load high with anyone factor were excluded (see table 6.7).

Table 6.9: Eigenvalues for the three identified factors.

Factors	Eigenvalues
Factor 1	9.87622
Factor 2	3.71207
Factor 3	2.25422

Factor 1 is made up of 23 variables; there are three variables under factor 2 and five variables under factor 3 as indicated in table 6.8. The factors account for 44.41 percent of the total variance in the data space (see table 6.10).

Table 6.10: Factor variance explained.

Factors	Variance explained by individual factors	Cumulative variance
1. International Constraints (factor 1)	18.77%	18.77%
2. Distribution Constraints (factor 2)	6.59%	25.36%
3. Financial Constraints (factor 3)	19.05%	44.41%

An international constraint, as factor 1, was named on the bases that the 23 variables arise from both domestic and foreign environmental forces. According to Ball et al (2010:23.25), there are three kinds of environments, namely, domestic, foreign and international environments. Ball et al (2010:23), defines domestic environment as forces external to the enterprise but within the borders of the country in which it is operating while foreign environment refers to forces external to the enterprise that emerges from the foreign market it is trading in. The international environment, on the other hand, is defined as the forces of the interaction between the domestic and foreign environment or between the sets of foreign environmental forces. The authors indicate that an enterprise that operates within the borders of

one country needs to be concerned essentially with only the domestic environment. As factor 1 consists of both domestic and foreign environmental variables the term international constraints was considered to be suitable. The domestic and international variables are forming one factor because of the interaction of these forces as suggested by Ball et al. (2010:23). The authors actually have argued that an enterprise that operates in both domestic and international markets will be affected by forces from both environments. The forces influence the enterprise simultaneously and therefore it follows that they will be viewed as one factor.

The second factor is named distribution constraints as the variables relate to issues of distribution to overseas markets.

Lastly, the third factor was named financial constraints as the variables relate to financial capabilities of an enterprise.

Further, according to Pietersen and Maree (2007:221) as well as Cohen et al. (2007:570), one has to determine whether the results of the factor analysis corresponded to the intended structure when the items were formulated. As discussed above, the factor analysis identified three factors constraining exporting namely international constraints, financial constraints and distribution constraints. Numerous studies have revealed a number of factors, for instance Soontiëns (2002:716-717) determined that South African small and medium enterprises exporters faced a combination of institutional, economic and infrastructural obstacles. Da Silva and da Rocha (2001:600) determined that Brazilian enterprises are constraint by political and economic constraints, lack of information and access to target markets, lack of firm commitment to exporting, non-tariff barriers in the target market, corruption, and lack of firm competitiveness in the target market, operational difficulties and quality requirements. Tesfom and Lutz's (2006:269) review concluded that export barriers in developing countries can be categorised into five factors namely: enterprise barriers, product barriers, industry barriers, export market barriers and macro environmental barriers. It is noted that export barrier items used in the instrument in this study were obtained from different authors that in their study found the five factors set as hypotheses in this study constrain exporting. The responses from Lesotho based manufacturing enterprises however gave

different factors. This study has therefore provided into literature another grouping of exporting constraints different from what prior studies that informed this study revealed. As a result, the following five null hypotheses can be accepted.

H₁₀: Enterprise barriers do not constrain exporting from Lesotho based manufacturing enterprises.

H₂₀: Product barriers do not constrain exporting from Lesotho based manufacturing enterprises.

H₃₀: Export market barriers do not constrain exporting from Lesotho based manufacturing enterprises.

H₄₀: Macro environmental barriers do not constrain exporting from Lesotho based manufacturing enterprises.

H₅₀: Industry export barriers do not constrain exporting from Lesotho based manufacturing enterprises.

This does not mean that the five factors are not export constraints, but rather, they indicate that for manufacturing enterprises based in Lesotho, exporting is constrained by international, distribution and financial constraints.

6.4 RELIABILITY

The internal reliability of the instrument was measured using Cronbach's alpha (α), which takes on values between 0 and 1. The closer the value is to 1 the better the internal consistency of the scale (Eiselen, Uys & Potgieter, 2005:112; Cohen et al., 2007:506).

Table 6.11: Factor reliability as described by the Cronbach alpha values.

Factor	Cronbach's Alpha
1. International Constraints	0.9249
2. Distribution Constraints	0.9352
3. Financial Constraints	0.7933

The instrument used in this study can be considered reliable as the Cronbach's alpha values are all above 0.7 (Pietersen & Maree, 2007:216; Cohen et al., 2007:506) (table 6.11).

6.5 ANALYSIS OF VARIANCE

As discussed in Chapter 5, ANOVA is meant to test if a statistically significant difference between the two groups of respondents exists, or the same group on either two variables, or two occasions (Eiselen et al., 2003:120; Cooper & Schindler, 2003:546-549; Cohen et al., 2007:547). According to Bless and Kathuria (1993:165), ANOVA is a parametric test aimed at analysing whether all the samples under consideration have been drawn from the same population or whether some of them stem from other populations. The authors further indicate that ANOVA tells us whether the sample means actually differ or whether the difference is as a result of sampling error. The ANOVA was performed to gain insight into the relationship between the three identified factors (dependent variables) and the four enterprise characteristics: namely, enterprise age, enterprise size, enterprise ownership and enterprise industry (independent variables), the results of which are listed in tables 6.12 to 6.18 below.

6.5.1 Perceptions of managers in Lesotho based manufacturing enterprises towards international constraints

Table 6.12: Analysis of variance for factor 1– International constraints

Independent Variable	Df	Sum of squares	Mean squares	F value	Pr>F
Enterprise age	4	1.8390	0.4598	1.04	0.3904
Enterprise size	3	9.1828	3.0609	6.90	0.0002*
Enterprise ownership	2	6.8249	3.4125	7.69	0.0007*
Enterprise industry	2	1.0116	0.5058	1.14	0.3225

* $p < 0.05$ significant at the 5% level of significance

As can be seen from table 6.12, the perceived export barriers, that is, international constraints (factor 1) are influenced significantly by the number of employees

employed by the manufacturing enterprises ($p < 0.05$) and the ownership structure of the enterprises ($p < 0.05$).

Table 6.13: Factor 1- international constraints and enterprise size

Variable	Mean*	Standard deviation
Micro	1.8427a	0.6002
Small	1.4631b	0.8247
Medium	2.0793a	0.7656
Large	2.1667a	0.7539

*Means with the same letter are not significantly different

Based on the information in tables 6.12 and 6.13, it can be seen that there is a statistically significant difference ($p < 0.05$) between the size of the manufacturing enterprise and how they perceive international constraints. With small manufacturing enterprises scoring lower for perceived international constraints than micro, medium and large enterprises. It means that small enterprises in Lesotho do not perceive the impact of international constraints as severely as micro, medium and large enterprises.

Based on the information in tables 6.12 and 6.14 it can be seen that there is a statistically significant difference ($p < 0.05$) between the ownership structure of the manufacturing enterprise and how the enterprise perceives international constraints. With jointly owned enterprises scoring higher for perceived international constraints than locally owned and foreign owned enterprises. Meaning that jointly owned manufacturing enterprises in Lesotho perceived the impact of international constraints more severely than 100 percent locally and 100 percent foreign owned enterprises.

Table 6.14: Factor 1-International constraints and ownership structure

Variable	Mean *	Standard deviation
100 % local owned	1.8849b	0.6676
100 % foreign owned	1.7901b	0.7512
Joint ownership	2.5894a	0.8255

*Means with the same letter are not significantly different

6.5.2 Perceptions of managers of Lesotho based manufacturing enterprise towards distribution constraints

Based on the information in tables 6.15 and 6.16 it can be seen that there is a statistically significant difference ($p < 0.05$) between the industry a manufacturing enterprise operates in and the perceived export barrier, distribution constraints (factor 2). With the leather manufacturing enterprises scoring the same as textile and apparel while textile and apparel scored the same as the “rest” on distribution constraints. However the leather industry scored lower than the enterprises classified as the “rest”. The category of “the rest” include, building materials, electrical appliances, artefacts, pottery, boxes and cartons to mention a few. It means that leather manufacturing enterprises do not perceive the impact of distribution constraints as severely as manufacturing enterprises classified as “the rest”.

Table 6.15: Analysis of variance for factor 2- Distribution constraints

Independent Variable	Df	Sum of squares	Mean squares	F value	Pr>F
Enterprise age	4	11.5168	2.8791	1.51	0.2033
Enterprise size	3	4.8722	1.6241	0.85	0.4689
Enterprise ownership	2	8.8758	4.4379	2.32	0.1017
Enterprise industry	2	15.4490	7.7245	4.04	0.0195*

* $p < 0.05$ significant at the 5% level of significance

Table 6.16: Factor 2- distribution constraints and enterprise industry

Variable	Mean*	Standard deviation
Textile	2.3864b,a	1.4716
Leather	1.8095b	1.1600
Rest.	2.6167a	1.6442

*Means with the same letter are not significantly different

6.5.3 Perceptions of managers in Lesotho based manufacturing enterprises towards financial constraints

Based on the information in tables 6.17 and 6.18 it can be seen that there is a statistically significant difference ($p < 0.05$) between the enterprise ownership structure and the perceived export barrier, financial constraints (factor 3). With locally owned enterprises scoring higher for perceived financial constraints than foreign owned and jointly owned enterprises. Meaning that 100 percent locally owned enterprises perceive the impact of financial constraints more severely than 100 percent foreign owned and jointly owned enterprises.

Table 6.17: Analysis of variance for factor 3- Financial constraints

Independent Variable	Df	Sum of squares	Mean squares	F value	Pr>F
Enterprise age	4	7.5064	1.8766	1.84	0.1242
Enterprise size	3	1.1873	0.3958	0.39	0.7619
Enterprise ownership	2	40.1883	20.0941	19.70	<.0001*
Enterprise industry	2	4.1673	2.0836	2.04	0.1333

* $p < 0.05$ significant at the 5% level of significance

Table 6.18: Factor 3- Financial constraints and ownership structure

Variable	Mean*	Standard deviation
100 % local owned	3.5505a	1.0761
100 % foreign owned	1.7846b	0.8819
Joint ownership	2.3333b	1.3077

*Means with the same letter are not significantly different

6.5.4 The relationship between exporting constraints, (namely international, distribution and financial constraints) and enterprise characteristics

The ANOVA results shown in tables 6.12 to 6.18 show the scores explaining whether there is a relationship between dependent variables (i.e. the identified factors) and the independent variables (i.e. enterprise age, enterprise size, enterprise ownership and enterprise industry). According to the null hypotheses ANOVA the means for the populations from which the various samples (say k in number) are drawn are all equal (Bless & Kathuria, 1993:166, Gay & Airasian, 2000:491; Cooper & Schindler, 2003:546; Pietersen & Maree, 2007:229).

Table 6.16 shows that the mean score of enterprises in the leather industry differ significantly from the group of industries classified as “the rest”. Therefore, the null hypotheses H_{60} is rejected, while the alternative hypothesis H_{6a} is accepted.

H_{60} : The perceptions of managers in Lesotho based manufacturing enterprises toward export barriers do not vary according to industry.

H_{6a} : The perceptions of managers in Lesotho based manufacturing enterprises toward export barriers vary according to industry.

Table 6.13 shows a statistically significant difference between the mean score of small enterprises and those of micro, medium and large manufacturing enterprises in Lesotho. This means that the perceptions towards international constraints of small enterprises (i.e. enterprises with three to nine employees) differ from micro enterprises, (that is, enterprises with less than three employees), medium enterprises (i.e. enterprises with between 10 and 49 employees) and large

enterprises (with 50 or more employees). Therefore, the null hypotheses H_{70} is rejected, and the alternative hypothesis H_{7a} is accepted.

H_{70} : The perceptions of managers in Lesotho based manufacturing enterprises toward export barriers do not vary according to enterprise size.

H_{7a} : The perceptions of managers in Lesotho based manufacturing enterprises toward export barriers vary according to enterprise size.

Table 6.14 shows a statistically significant difference between the mean score of jointly owned enterprises and those of 100 percent locally and 100 percent foreign owned enterprises for factor (1) international constraints. While table 6.16 shows a statistically significant difference between the mean score of locally owned enterprises and those of jointly owned and 100 percent foreign owned enterprises for factor (3) financial constraints. This means that enterprise ownership structure influences the perceived export barriers where the perceptions of jointly owned enterprises differ from the perceptions of enterprises that are 100 percent locally or foreign owned on international constraints. Also the perceptions towards financial constraints of locally owned enterprise differ from the perceptions of enterprises that are 100 percent jointly and foreign owned. Therefore, the null hypotheses H_{80} is rejected, while the alternative hypothesis H_{8a} is accepted.

H_{80} : The perceptions of managers in Lesotho based manufacturing enterprises toward export barriers do not vary according to enterprise ownership structure.

H_{8a} : The perceptions of managers in Lesotho based manufacturing enterprises toward export barriers vary according to enterprise ownership structure.

6.6 DESCRIPTIVE STATISTICS

The mean scores of export constraints as shown in table 6.19 indicate that there are three export constraints, namely, lack of finance for market research, lack of financial resources to finance export sales and lack of excess manufacturing capacity for exports, are regarded as hindering exporting from Lesotho based manufacturing enterprises the most. The findings of this study are supported by Fills (2002), and Da

Silva and Da Rocha's (2001:596). For example, Fills's (2002:917), list of exporting constraints included limited production capacity and lack of financial resources, which corresponds with the findings of this study. Also Da Silva and Da Rocha's (2001:596) most important exporting barriers included lack of financial assistance.

Table 6.19: List of perceived exporting constraints from Lesotho based manufacturing enterprises

Coding number	Exporting constraints	Mean score
V13	Lack of finance for market research	3.19
V12	Lack of financial resources to finance export sales	3.15
V14	Lack of excess manufacturing capacity for exports	3.04
V21	Lack of awareness of export assistance available in Lesotho	2.82
V43	Corruption in Lesotho	2.53
V11	Difficulty in maintaining control over foreign middlemen that the enterprise will be using	2.44
V10	Difficulty in obtaining reliable middlemen abroad	2.44
V32	High transport costs for transporting products to foreign markets	2.38
V9	Difficulty in communicating with clients overseas	2.38
V49	Difficulty in matching competitor's prices	2.37
V30	Risk and variations in exchange rates	2.32
V33	High insurance cost to cover products while in transit to foreign markets	2.27
V44	Corruption in the targets markets	2.17
V42	Unsuitable storage facilities for the containers at Lesotho railway terminal	2.14
V41	Inadequate container handling facilities at Lesotho railway terminal	2.14

Table 6.19:cont. List of perceived exporting constraints from Lesotho based manufacturing enterprises

Coding number	Exporting constraints	Mean score
V23	Lack of own internationally recognised brand names	2.02
V28	Difficulty in meeting foreign delivery dates	2.01
V31	Difficulty in supplying inventory abroad	1.99
V29	Difficulties meeting after sale service to customers abroad	1.98
V50	Political instability in the foreign markets that the enterprise wishes to serve	1.94
V37	High cost of labour in Lesotho	1.89
V45	Political problems in Lesotho	1.77
V36	Low labour productivity in Lesotho	1.74
V26	The challenge of having to deal with foreign customers that have different habits	1.67
V35	Restrictions on quantities allowed by foreign markets to enter their countries	1.59
V40	Poor telecommunication services	1.59
V18	Difficulty in meeting packaging requirements	1.58
V46	Industrial unrest in Lesotho resulting from employees strike	1.56
V20	Unable to adapt the enterprise's products to export market's requirements	1.48
V17	Difficulty in meeting product quality standards	1.43
V24	Lack of acceptance of Lesotho's products in the markets the enterprise wish to serve	1.34

6.7 CONCLUSION

There are 162 Lesotho based manufacturing enterprises that responded to the survey. The majority of these enterprises are young and have only operated in Lesotho for a period of 5 years or less; they are very small, with less than 3 employees, locally owned and are in the textile and apparel industry.

The study determined that 54.33 percent of the respondents were not exporting but 26.55 of the non-exporters were interested to export in the future while 27.78 were not interested in exporting at all.

Based on the results of the factor analysis, 14 of the 45 initial barriers were excluded leaving 31 barriers from which the factor analysis identified three factors, namely, international constraints (factor 1), distribution constraints (factor 2) and financial barriers (factor 3) but this does not mean that the five factors identified from literature are not export constraints. The three constraints in particular that can be considered as barriers to exporting from Lesotho based manufacturing enterprises, are lack of finance for market research, lack of financial resources to finance export sales and lack of excess manufacturing capacity for exports.

The study further determined whether the perception of managers in Lesotho based manufacturing enterprises towards export barriers varied on the bases of certain enterprise characteristics. The findings revealed that perceptions of international constraints differed with enterprise size and ownership structure while perceptions of distribution constraints differed depending on the type of industry the enterprise operates in. In addition the study determined that the perceptions of financial constraints differed with ownership structure. The next chapter will provide an in-depth discussion on the research findings as well as make recommendations.

CHAPTER 7

CONCLUSION AND RECOMMENDATIONS

7.1. INTRODUCTION

Cooper and Schindler (2003:665) note that conclusions represent inferences drawn from the findings, which the researcher should make, while recommendations refer to ideas regarding corrective action. They also maintain that, in academic research, recommendations often constitute suggestions for further study that would broaden or test the understanding of the subject area, while in applied research, the recommendations would usually be offered for the purpose of managerial action rather than research.

Each result, according to Gay and Airasian (2000:546-547), should be discussed in terms of its relation to the topic studied and in terms of its agreement or disagreement with the previous results obtained by other researchers without over generalisation thereof. They further suggest that the conclusion and recommendation chapter should also discuss the theoretical and practical implications of the findings as well as make recommendations for future research or action.

Firstly, this chapter presents the summary of the problem statement and the literature review followed by a discussion of the research findings. Thereafter, the chapter presents the recommendations based on the findings, and finally, indicates future research topics.

7.2. PROBLEM STATEMENT AND LITERATURE REVIEW.

Chapter 1 relates to the introduction and problem statement. The chapter elaborated on the importance of exports to both nations and enterprises. The statistics regarding merchandise exports from Lesotho covering 1985 to 2008 were depicted and the problem statement relating to exporting activity in Lesotho was discussed. The

problem was identified as being threefold. Firstly, it was noted that although Lesotho's exports have been increasing from 1985 to 2008 except for the years 2003, 2005 and 2007, this growth has not eliminated the negative balance of payments that the country continues to experience. Secondly, Lesotho's exports are dominated by clothing and garments. The dominance of clothing and garment exports from Lesotho is a problem because clothing has been successful in the international market due to the AGOA. This is a concern because the AGOA is projected to end in 2015 and it is uncertain whether exporting activity in Lesotho can survive the end of AGOA. Thirdly, it was noted that Lesotho's exports are vulnerable to adverse international developments because of low destination diversification as most of Lesotho's exports are predominantly destined for the SACU region – specifically South Africa – and the USA. Lastly, the chapter states the hypotheses that were tested in this research which focused on determining the factors constraining exporting from Lesotho based manufacturing enterprises and whether the perceived exporting constraints are influenced by enterprise characteristics, namely, the age of the enterprise, the size of the enterprise, enterprise ownership structure and the industry in which the enterprise operates.

Chapter 2 focuses on literature pertaining to the globalisation of the business environment. The key drivers of globalisation were elaborated on, namely, market, competitive and political forces, as well as cost, and changes in technology, in particular, changes in communication technology. In addition, the chapter discussed the impact of globalisation on growth, poverty and the environment. The literature supports the view that globalisation influences growth. It is noted that globalisation promotes growth as enterprises acquire knowledge from operating in foreign markets, which translate into improved productivity. The two opposing views with regard to the effect of globalisation on poverty were discussed. On the one hand, it is argued that globalisation lowers wages and employment benefits because, due to competition, workers end up accepting the lowest wages and benefits; hence poverty occurs. On the other hand, certain authors present statistics regarding poverty and wages that revealed that the numbers of extremely poor people in the world have declined and that wages have actually increased due to globalisation. In addition, the literature indicated that globalisation has a negative effect on the environment; hence there is a growing need to have in place complementary policies that will reduce or

avert environmental problems. The chapter further discussed the role of MNEs in the globalisation process as they are viewed as key actors in the process. It was noted that multinationals have directly or indirectly stirred-up globalisation. Furthermore, it is evident that MNEs, apart from capital formation, employment and trade associated with their projects, exert valuable indirect effects in the economies in which they operate. These indirect effects of MNEs are divided into productivity and market access categories. Lastly, the chapter highlighted the debate around the existence, or otherwise, of globalisation. Certain authors are of the view that globalisation is coming to an end and some even regard it to be a myth. The authors, using trade data of the largest MNEs, argue that most trade occurs at a regional level within the triad economic block of the European Union, North America and Asia, and not globally. The proposition has attracted criticism. The critics point to numerous flaws in that which is presented as evidence and to the contrary regarding the evidence as further proof that globalisation is alive and well.

Chapter 3 details theories explaining the internationalisation decision making process of enterprises. The discussion focused firstly on the traditional theories, namely, the Uppsala/stage model, network theory, and foreign direct investment theories. The traditional theories suggest that the internationalisation process of enterprises is gradual and is mostly meant for experienced and large enterprises. The chapter noted that the theories, however, were found to fall short in explaining the internationalisation behaviour of all enterprises. For instance, small enterprises were internationalising while some enterprises internationalised instantaneously rather than doing so gradually.

The chapter subsequently discussed the emerging paradigms which challenged the gradual internationalisation process and the suggestion that internationalisation is reserved for experienced and large enterprises. According to emerging paradigms, internationalisation is open for every enterprise, including small and medium enterprises. It was noted that small and medium enterprises can enter the international markets instantaneously as opposed to a gradual approach because they do not have to follow the formal corporate governance structures like large enterprises must. Literature has revealed that the owner-manager in small enterprises is central to their internationalisation and the more international oriented

and entrepreneurial the owner-manager is, the quicker the enterprises will enter the foreign market. In fact, literature has shown that rather than a gradual entry into international markets, the new trend is to enter into instant/new ventures, termed born global enterprises.

Lastly, the chapter discussed the latest emerging theory, termed the organisational model. The organisational model acknowledges the importance and relevance of interrogating the internationalisation process models, that is, determining whether the process is incremental or not. It is noted that further interrogation of the internationalisation process only confirms that this process differs for enterprises and according to the model; it is no longer a theoretically fruitful argument. According to the organisation model, studies should shift to why the process of internationalisation differed, resulting in different approaches to resource commitment over time. The organisational model determined that the characteristics of an internationalising enterprise play a pivotal role in its internationalising process. Lastly, the chapter elaborated on how enterprises entered foreign markets, that is, the different modes of entry into the foreign markets. The modes of entry from which to choose are exporting, contractual methods and foreign direct investment.

Chapter 4 focused on exporting. According to the literature, exporting is the most preferred mode of internationalisation, which can be approached from two angles, namely indirect and direct exporting. Indirect exporting is advantageous in that an enterprise avoids the overhead costs and administrative burden involved in managing exports. On the other hand, the skills and know-how developed through experience in the foreign markets are accumulated outside the enterprise. With indirect exporting, enterprises have little control over their products and may not be aware of whether their products are being exported. Direct exporting, on the other hand, is where an enterprise contact the consumer in the foreign market directly or through resellers, which presents a number of challenges. It was noted that, among others, direct exporting involves higher start-up costs compared to indirect exporting and an increased need of information regarding viable markets. In addition, the enterprise needs to familiarise itself with the various documents that are needed at various stages of the exporting process. All these requirements could pose as trade barriers. The chapter examined a number of studies conducted to determine

exporting barriers. A number of such barriers have been documented in these studies, for example, inadequate export incentives from governments, strong international competition in the target markets, high transportation costs, to mention a few. Other studies employed factor analysis to group export barriers. The groups that emerged include political and economic barriers, infrastructural barriers and trade instrument barriers. As the research evolved, the research focus shifted to testing the effect of export barriers on a variety of dimensions. Exporting barriers were tested on the size of the enterprise, export market experience, the industry in which the enterprise operates, export destination and the enterprise's level of export development.

The chapter also discussed the export development process. It was determined that exporting evolved in stages. Different studies yielded different export development stages. The factors that triggered exporting were also discussed. Excess product capacity, domestic market saturation/shrinkage, export incentives by government, and the unique product of an enterprise emerged as such factors. Finally, the chapter discussed the export promotion initiatives in Lesotho.

7.3. FINDINGS

7.3.1 Demographic profile

The demographic profile provided information with regard to the characteristics of the enterprises that participated in the study. Firstly, the enterprise age, measured by the number of years that the enterprise has been operating in Lesotho, revealed that the majority of enterprises (64.81 percent) had operated in Lesotho for a period equal to or less than 10 years. Earlier in the literature, three significant periods were noted where an increase inflow of foreign enterprises into Lesotho was recorded. At first, foreign enterprises from South Africa located in Lesotho during the 1980s in order to avoid apartheid-era trade sanctions. In the 1990s, another flow of foreign investors were attracted to Lesotho due to government initiatives to promote export-oriented manufacturing, that is, foreign direct investment. In 2000, Lesotho became eligible for AGOA, the unilateral trade preference programme that offered Central American, Caribbean and SSA countries access to the United States' (US) market. AGOA

granted eligible countries duty-free treatment for specified products. The signing of AGOA in 2000 brought yet another inflow of FDIs into the manufacturing sector in Lesotho. There appears to be a correlation between the signing of the AGOA and the establishment of manufacturing enterprises in Lesotho. The findings of this study support Lall (2005:999), who indicated that privileges offered by AGOA spurred FDI into Lesotho.

The analysis of enterprise size, measured by the number of employees, indicated that 50.62 percent of enterprises were micro, that is, they had less than three employees, followed by large enterprises with 24.69 percent, that is, they had more than 50 employees and the remaining small and medium enterprises with 14.20 and 10.49 percent respectively. The study confirms the previous findings with regard to enterprise size composition in Lesotho where ECI Africa (2006:30) had reported an enterprises composition of 67 percent micro, 14 percent medium, 11 percent large, and 8 percent small enterprises. It is noted that in Lesotho most of the enterprises were micro.

As suggested earlier in the literature, AGOA appears to have attracted a large inflow of FDI into the export-oriented manufacturing industry in Lesotho. Nonetheless, it is surprising that the demographic information relating to ownership structures indicated that 62.35 percent of Lesotho based manufacturing enterprises are locally owned. The literature suggests that as FDI is attracted into a country, a number of spillovers are generated by multinational enterprises in the country in which they operate. It is expected that FDI would foster the development of local enterprises, especially where FDI is export-oriented. It is noted that export-oriented foreign enterprises would not subject local enterprises to competitive pressure in their domestic market, but instead, would offer them opportunities to expand via exports of such multinationals that would normally source intermediate products from them. Lall (2005:1009), however, found that FDI in Lesotho has not yielded knowledge spillovers or backward linkages, as it is noted by the author that since the first garment factory was established, almost no local enterprises have emerged to compete with the foreign enterprises, nor are foreign enterprises subcontracting local enterprises or obtaining any supplies from them. Based on the findings of Lall (2005:1009), it can be inferred that the foreign owned manufacturing enterprises

attracted to Lesotho are predominantly export oriented as local enterprises appear to continue to operate despite the existence of foreign enterprises in Lesotho, even though the local enterprises have not yet taken the opportunity to use foreign enterprises to export their goods. It is further noted that there are few foreign owned enterprises and that they are large; hence, a high proportion of locally owned enterprises can be expected (ODI, 2009:7; Shakya, (ND):4). Further, the larger proportion of locally owned enterprises would continue as the foreign owned enterprises do not have a long-term commitment in Lesotho. The foreign owned enterprises seem to continue their operations in the country for as long as the trade concessions give them sufficient incentive to do so. It is noted that in 2005, the manufacturing sector declined by 8.3 percent as foreign investors discontinued their operations in Lesotho when the ATC expired at the end of 2004 (ODI, 2009:2; Bennet, 2006:171; Central Bank of Lesotho, 2006 (b):10). Under the ATC, developed countries imposed quotas on exports of yarn, textiles and apparel from developing countries. According to Gereffi and Frederick (2010:3), the restrictions were designed to protect the domestic industries of the United States and the European Union by limiting imports from highly competitive suppliers such as China. The said authors further indicated that countries such as China reached their maximum levels under the quota system; hence, they shifted to other countries such as Lesotho, which had unused export quotas. The removal of the said quota system in 2005 meant that buyers in developed countries became free to source apparel of any quantities from any country subject only to a system of tariffs. While Lesotho enjoyed a competitive edge under AGOA, as the country was eligible to enter the USA markets free from quota restrictions and being duty-free, the end of the ATC somehow eroded its competitive advantage. The debate around the sustainability of trade preference programmes is justified as the findings in this study reflect that it is not easy for certain countries to sustain the benefits they receive from globalisation post trade preferences. The findings of this study indicate that the signing of the AGOA attracted foreign enterprises into the manufacturing sector in Lesotho; however, it appears that it might be difficult to retain such enterprises post-AGO. Worst of all is that, as they depart they would not leave behind positive spillovers as they have no linkages with local enterprises (Lall, 2005:1009).

The findings of the exporting status of enterprises were categorised into four groups, namely, uninterested non-exporters (27.78 percent), interested non-exporters (26.55 percent), inactive exporters (6.79 percent) and active exporters (38.88 percent). The non-exporters outnumbered the exporters with 54.33 percent of the respondents not exporting, and of this amount, a total of 27.78 percent indicated that they are not interested in exporting, which in itself can be considered to be a constraint to exporting. Several explanations have been offered in the literature to conceptualise the export development phenomenon. Generally, exporting is understood to be evolutionary and a sequential process where the management of an enterprise would not be interested in exporting and hence operate domestically, but would gradually fill unsolicited orders and progress through to the point where they would become active exporters. A number of factors have been identified, which would contribute to the movement from one exporting stage to the next, for example, experiential knowledge about foreign markets, excess capacity and unique competencies, to mention a few (Wiedersheim-Paul et al., 1978:51; Leonidou & Katsikeas, 1996:525-527; Tan et al., 2007:296). The findings suggest that the majority of enterprises are still positioned at the early stage where they are not interested in exporting. This implies that factors that stimulate enterprises to move from the non-exporting to the exporting stage are limited or are not significant enough for the majority of Lesotho based manufacturing enterprises. For instance, enterprises might be experiencing limited capacity or managers might be lacking experiential knowledge about foreign markets. The factors influencing exporting and export barriers constitute opposite sides of the same coin. For instance, production capacity acts as an influential factor for exporting if there is unutilised production capacity, while a lack of excess production capacity acts as a barrier to exporting. In other words, the literature would seem to suggest that the lack of, or insufficient stimuli in Lesotho translate into barriers constraining export activity. The literature has shown that non-exporters or even less experienced exporters would perceive more problems than the experienced exporters would. It means that enterprises at the early stages of export development might perceive export barriers as being higher than would enterprises that are positioned at the later export development stages. As Lesotho based manufacturing enterprises are mostly at the early stages of export development, their perceived export barriers are likely to be high.

Also, it was determined that exports from Lesotho are predominantly destined for South Africa followed by the USA, with very low percentages exported to Botswana, Swaziland and Germany. Based on the Uppsala/stage theory, the situation would mean that Lesotho based manufacturing enterprises first export to markets with a closer psychic distance in order to gain experience before they expand to markets with greater psychic distance. Psychic distance is defined in terms of factors such as differences in language, culture or political systems, which disturb the flow of information between an enterprise and the market (Johanson & Vahlne, 1990:13; Židonis, 2007:276). As Lesotho is surrounded by South Africa, the psychic distance between the two countries is believed to be minimal. However, as mentioned earlier, AGOA attracted FDI to the manufacturing sector in Lesotho, meaning that some of the Lesotho based manufacturing enterprises are internationally experienced and the Uppsala/stage theory would not be appropriate to describe their internationalisation process. It is observed from statistics that the US and South African markets appear to be substitute export markets for Lesotho as increasing exports in one market result in the decrease in the other. For instance, the Bureau of Statistics (2010:15) indicates that in 1996 exports from Lesotho were M601.8 mil. of which exports to South Africa were 58.4 percent, and the USA, 32.0 percent. In 1997, exports from Lesotho amounted to M881.6 mil., of which exports to South Africa constituted 79.1 percent, while 20.3 percent of the exports were sent to the USA. The Bureau of Statistics (2010:15) further reveals that, in 2000, exports from Lesotho amounted to M2327.5 mil. of which 72.6 percent was sent to the USA and 27.7 percent to South Africa. Bennet (2006:170) indicates that prior to 2000 much of Lesotho's exports targeted the South African market, while the AGOA influenced a switch to the USA. In 2005, however, the statistics revealed that exports from Lesotho amounted to M3056.2 mil., of which 99.8 percent was exported to South Africa, while only 0.2 percent was exported to the USA (Bureau of Statistics, 2010:15).

At the end of 2004 there was uncertainty in the US market due to the termination of the ATC, which resulted in some of the foreign owned enterprises closing their operations in Lesotho at the beginning of 2005, while the remaining enterprises appear to have shifted their exports to South Africa instead of the USA. The results suggest that if problems are experienced with regards to marketing products in the USA, Lesotho based manufacturing enterprises divert their products to South Africa.

According to Kituyi (nd:34), as uncertainty arises for exporters from the AGOA eligible countries it wipes out the likelihood of success for AGOA beneficiaries in the US market. Recently the uncertainty that arose among the exporters from the AGOA eligible countries is the expiry of the waiver on the principle of the rule of origin, which AGOA beneficiaries from the least developed countries such as Lesotho enjoyed (Kituyi, nd:34; Collinsons, 2003:6; US Interfaith Trade Justice Campaign, 2006). According to the said authors, AGOA eligible countries have to comply with a number of requirements, among which was a rule of origin. The rule of origin required that apparel exported to the USA from AGOA beneficiaries should be made from components or fabric obtained from the USA or other AGOA beneficiaries. The apparel exporters in least developed countries were exempted from the rule of origin. It means that they could export apparel made from components from any country. As noted, the concession ends in 2012. It means that as from 2012, exporters from the least developed countries such as Lesotho would have to source their inputs within their own countries, other AGOA member countries, or the USA. Currently, Lesotho lacks facilities to produce the knitted fabric that its knitted garment industry requires, which means that exporters of apparel would have to find alternative suppliers for the components needed in the production of apparel. This might present a challenge to find suppliers in other AGOA member countries at similar prices (Bennet, 2006:173). The findings of this study that indicated a higher proportion of exports to South Africa rather than to the USA portray the uncertainty that resulted from the anticipated expiration of the waiver on the principle of the rule of origin that AGOA beneficiaries from least developed countries such as Lesotho enjoyed up to 2012. This led to enterprises switching to alternative markets, which for Lesotho was South Africa.

According to Sandrey et al. (2005:54-56), one objective of a successful trade policy is to gain a significant and growing share of global trade of what is termed “dynamic products”. The authors define dynamic products as those products that represent the largest proportion of the total world exports or imports and thereby reflecting the sectors that are considerable in size and growing rapidly. Three out of 40 top dynamic products in world exports, according to the authors, are electronics, automotive and related components and apparel. The authors indicate that where exports of dynamic products are dominated by developed countries, there are greater potential barriers to entry and therefore the relevant markets are difficult to

access. Thus, in markets with relatively high developing countries' share, one can predict relatively low barriers to entry for other developing countries. The authors indicate that a strong presence of developing countries is found in electronics and apparel. In this study, respondents are classified into 19 manufacturing categories, the largest being textiles and apparel, representing 54.32 percent of the respondents. This indicates that the majority of enterprises in Lesotho have chosen one of the dynamic products in markets dominated by developing countries, which would have low barriers to gaining entry. Sandrey et al. (2005:3-6) acknowledged that Lesotho is extremely dependent upon the exports of a very few specialised lines of apparel. Yet, there are a number of other types of products that can be exported. The authors noted that export diversification goes beyond just identifying other products that can be manufactured, but includes the provision of a solid infrastructure in order to entice new investments, and the building of regional and global linkages. A few of the respondents operate in other categories such as health and personal care (1.85 percent) and furniture (4.32 percent), which Sandrey et al. (2005:58) consider potential diversification products for developing countries (2005:58). The findings of this study, which reveal low product diversification, are consistent with those of other studies.

7.3.2 Factor analysis

In order to determine the factors constraining exporting from Lesotho based manufacturing enterprises, an exploratory factor analysis was performed. The first round of factor analysis was carried out on 45 export constraints derived from the literature review. The first round of factor analysis was done on a possible five factors as was suggested by the literature; however, only three factors emerged. A second factor analysis was run —this time on three possible factors— and the scree plot/eigenvalues histogram of the factor analysis of three factors confirmed the three factors namely, factor 1, international constraints; factor 2, distribution constraints; and factor 3, financial constraints. This meant that the following five null hypotheses were accepted:

H₁₀: Enterprise barriers do not constrain the exporting of Lesotho based manufacturing enterprises.

H₂₀: Product barriers do not constrain the exporting of Lesotho based manufacturing enterprises.

H₃₀: Export market barriers do not constrain the exporting of Lesotho based manufacturing enterprises.

H₄₀: Macro environmental barriers do not constrain the exporting of Lesotho based manufacturing enterprises.

H₅₀: Industry export barriers do not constrain the exporting of Lesotho based manufacturing enterprises.

Factor 1: international constraints —so called because all the variables refer to differences or interactions between domestic and foreign environments—comprise 23 variables. These include variables such as the high cost of insurance to cover the products while in transit to foreign markets, risk, variations in exchange rates, and corruption in Lesotho. Factor 2: distribution constraints consist of three variables, namely difficulty in maintaining control over the foreign middlemen. that the enterprise will be using, difficulty in obtaining reliable middlemen abroad, and difficulty in communicating with clients overseas. Factor 3:— financial constraints – consists of five variables, namely lack of finance for market research, lack of financial resources to finance export sales, lack of excess manufacturing capacity for exports, lack of awareness of export assistance available in Lesotho, and difficulty in matching competitor prices. These three factors accounted for 44.41 percent of the total variance. The findings of this study do not suggest that the five factors identified in the literature are not export barriers, but only that the instrument used in this study identified these three factors as export barriers for Lesotho based manufacturing enterprises.

7.3.3 Analysis of variance

An ANOVA was performed to determine if there was a statistically significant difference in perceived export constraints based on enterprise age, the enterprise

size, the enterprise ownership structure and the industry in which the enterprise operates. The three factors that were identified earlier were used as dependent variables.

The results of the ANOVA indicated that respondents' perceptions of factor 1:– international constraints – is influenced by the size of the enterprise, with small manufacturing enterprises perceiving international constraints as being less of a constraint to exporting than the micro, medium and large enterprises did. It therefore means that the null hypothesis H_{70} : The perceptions of Lesotho based manufacturing enterprises toward export barriers do not vary according to enterprise size, was rejected, while the alternative hypothesis H_{7a} : The perceptions of Lesotho based manufacturing enterprises toward export barriers vary according to enterprise size, was accepted.

International constraints as defined earlier relates to the forces of the interaction between the domestic and foreign environment or between the sets of foreign environmental forces that face enterprises engaged in international trade. As indicated earlier, enterprises that operate within the borders of one country need to be concerned with essentially only the domestic environment, but if an enterprise operates in a foreign market, it will encounter forces from both the domestic and foreign environments referred to as international constraints (Ball et al., 2010:23). It is noted that larger enterprises in the manufacturing sector in Lesotho are accounted for by foreign enterprises that operate mostly in the garment and textile industry (Lall, 2005:1000; ECI Africa, 2006:29; MTICM, 2008:23). Furthermore, it is noted that the foreign enterprises attracted into Lesotho are export oriented (MIGA, 2006:23; Central Bank of Lesotho, 2006(b):1; MITM, 2003:2). There are, however, smaller enterprises that cater for foreign markets with products such as carpets, tapestry, leather goods and handicrafts (MITM, 2000:9), with the MITMs (2000:8) definition of smaller enterprises covering both small-scale and micro enterprises. With the Literature indicating that smaller enterprises would perceive exporting constraints to be greater than larger enterprises do, the finding of this study is surprising. For instance, Katsikeas and Morgan (1994:22) determined that smaller enterprises perceived higher levels of exporting problems than larger ones on three problem dimensions, namely, information or communication with the export market, product adaptation and exogenous logistical constraints. In this study, however, micro

enterprises perceive international constraints the same as medium and large enterprises. A possible explanation for this can be that the micro rather than small enterprises in this study make up the small enterprises involved in the international trade of carpets, tapestries, leather goods and handicrafts as indicated by the MITM (2000:9).

In addition, the results of the ANOVA examined if there was a statistically significant difference in how respondents perceived factor 2 – distribution constraints – on the basis of the industry in which the enterprise operates. Enterprises were grouped into three industry types, namely, textile and apparel manufacturing enterprises, leather manufacturing enterprises and the enterprises classified as “the rest” which comprises building materials, electrical appliances, artefacts, pottery, boxes and cartons, to mention but a few. The results showed that leather manufacturing enterprises scored the same as textile and apparel while textile and apparel scored the same as enterprises classified as “the rest” on distribution constraints. However, the leather industry scored lower than the enterprises classified as “the rest”. It therefore means that the null hypothesis H_{60} : The perceptions of Lesotho based manufacturing enterprises toward export barriers do not vary according to enterprise industry, was rejected while the alternative hypothesis H_{6a} : The perceptions of Lesotho based manufacturing enterprises toward export barriers vary according to enterprise industry, was accepted.

Distribution constraints consist of three elements, namely, difficulty in maintaining control over the foreign middlemen that the enterprise will be using, difficulty in obtaining reliable middlemen abroad and difficulty in communicating with clients overseas. According to Sandrey et al. (2005:39, 58), textile and apparel is mostly destined for the USA while wool products, leather and footwear, cereal, and electrical equipment are predominantly destined for South Africa. While the findings of this study support the previous studies that found that enterprises belonging to different industries within the manufacturing sector perceived export barriers differently as they are likely to face different situations (Da Silva & Da Rocha, 2001:601; Leonidou, 2004:284; Tesfom, Lutz & Ghauri, 2004:419) it is, however, not clear though why enterprises that are classified as “the rest” perceive distribution constraints more severely than enterprises in the leather industry. A possible

explanation could be that leather products are predominantly destined for the South African market (Sandrey et al., 2005:39, 58). In fact according to United Nations (2012:19) leather industry products are one of those exports that are destined almost exclusively for the South Africa Market a country which completely surround Lesotho and both countries being members of the South African Customs Union the leather industry perceives distribution constraints much less severely. While products from “the rest” of the industries might be destined for South Africa market (MITM, 2000:9) it is further noted that some products from “the rest” industries are destined for Botswana (products such as medicinal and pharmaceuticals) and others such as milled products and handicrafts are exported to Canada and the European Union (Maleleka & Matlanyane, 2005:31; United Nations, 2012:19-20). This could be contributing to the enterprises classified as “the rest” to perceive distribution constraints more severely than the enterprise in the leader industry.

Lastly, the ANOVA results revealed that factor 1 – international constraints – is perceived differently by respondents depending on the ownership structure of the enterprise where jointly owned enterprises scored statistically significantly higher ($p < 0.05$) for perceived international constraints than locally owned and foreign owned enterprises. In addition, the ANOVA results revealed that respondents differ in their perception of factor 3 – financial constraints – depending on the ownership structure of the enterprise, where locally owned enterprises scored statistically significantly higher ($p < 0.05$) for financial constraints than foreign owned enterprises and jointly owned enterprises did. It therefore means that the null hypothesis H_{80} : The perceptions of Lesotho based manufacturing enterprises toward export barriers do not vary according to enterprise ownership structure, was rejected, while the alternative hypothesis H_{8a} : The perceptions of Lesotho based manufacturing enterprises toward export barriers vary according to enterprise ownership structure, was accepted.

Although, according to MTICM (2008:48), MITM (2000:19) and Lall (2005:1009), there are no linkages between foreign enterprises and local enterprises in Lesotho, in this study, nine enterprises (representing 5.56 percent) were jointly owned. Ball et al. (2010:455) indicate that enterprises enter into a cooperative effort as a weapon to tackle financial, technological, political and other challenges facing enterprises

involved in an increasingly competitive international marketplace. Among others, joint ventures enable enterprises to acquire the expertise that they lack, to access additional capital, and to share development cost and risk (Root, 1994:156-169; Hill, 2007:486-495; Griffin & Pustay, 2005:348-362). It was noted earlier that foreign enterprises attracted to trading in Lesotho are either medium or large. Locally owned enterprises on the other hand are predominantly small. It means that joint ventures in Lesotho are likely to occur between a large or medium enterprise and a smaller enterprise. Further, it was noted that foreign owned enterprises are export oriented and engage mostly in the garment and textile industry, while only a few locally owned enterprises engage in international trade and focus on products such as carpets, handicrafts and tapestry. It is possible that joint ventures are converting locally owned enterprises that were domestically oriented into export oriented enterprises, that is, a joint venture is likely to be newly introduced to international trade. The literature has shown that non-exporters or less experienced exporters would perceive more barriers than experienced exporters. It is also noted that locally owned enterprises encounter a number of limitations, namely, limited capacity to meet the quality standards of the export market, inability to produce at scale and failure to deliver consistently in the quantities and timeframes required (MTICM, 2008:49). These limitations of the locally owned enterprises might expose the venture to a number of challenges, both in the domestic and the foreign markets; hence the perceptions of high levels of international constraints.

It is noteworthy that the study confirms the findings in the literature that revealed that locally owned enterprises that are predominantly small have difficulty in accessing finance. According to the World Bank (2007:70), locally owned enterprises in Lesotho are more likely to encounter serious problems of accessing credit than foreign owned enterprises would. This is because foreign owned enterprises might not only rely on the domestic financial system as they could receive assistance from their home country and their parent enterprises for financing. According to MTICM (2008:36) most small enterprises rely on personal savings to finance their start-up and running costs because they are unable to furnish the necessary security for loans needed by financial institutions. In agreement, MITM (2000:17) indicates that the financial sector in Lesotho is underdeveloped and it targets consumers of particular levels of income as well as medium and large-scale corporate clients.

According to the MITM (2000:17), effectively, there are no second tier banking institutions that can mobilise savings and extend credits to small enterprises. The MITM (2000:15-16) further indicates that attempts to establish alternative financial mechanisms to enable small and micro enterprises to access finance failed as the different schemes that were put in place collapsed.

The financial constraint among small predominantly local enterprises is further exacerbated by the export promotion structure, which is focused mostly on medium and large foreign enterprises engaged in the textile and apparel sector. Shakya (n.d:10) indicates that the Lesotho National Development Corporation (LNDC) charged with the implementation of the country's export and investment promotion programmes works with medium and large enterprises and because of its extreme concentration on apparel, it actually functions as a *de facto* garment promotion agency. MITM (2000:12) is also quoted as saying: "until very recently, economic growth and development in Lesotho were identified solely with medium and large-scale enterprises. The small and micro enterprises sector was seen as unproductive not growth-enhancing. Consequently, industrial development and investment strategies and policies emphasised the need to focus on promotional efforts to attract foreign investment into the large scale industrial sector".

The incentives package offered to medium and large enterprise by the LNDC and the MTICM (Shakya, n.d:10-11; Bennet, 2006:176-177; Southern African Customs Union (SACU), n.d: A2-131-132; Sandrey, et al., 2005:32; Central Bank Lesotho CBL, 2006(b)2; MIGA, 2006:23; Ministry of Finance, 2008:4-5:) includes:

- **Enterprise support**

- Business registration procedures.
- Acquisition of permits and manufacturing licences.
- Licence and residency paperwork for foreign workers, managers and owners.
- Arranging site visits and assistance in selection of suitable sites.
- A key focal point for contact with relevant ministries on business regulations.
- A facilitating body for contact with the enterprises supplying services.
- A facilitating body for skills and technology development programmes.
- Industrial relations if disputes arise with workers.
- Training costs allowable at 125 percent for tax purposes. It means that when a manufacturing enterprise has trained employees, such an enterprise is allowed to

deduct the total cost incurred for training plus 25 percent of costs. This is an incentive as the taxable profit will be reduced by a higher figure than the actual cost incurred.

- **Managing incentive schemes**

- Unimpeded access to foreign exchange
- Export finance facility such as the provision of credit guarantee assistance to exporters offered through the Central Bank of Lesotho
- Short and long term loans.
- Import VAT credit facility for local purchase of raw material and capital goods. Furthermore, the revenue authority of Lesotho has introduced flexible VAT payment systems to tax compliant enterprises so as to ease their cash flow.
- Manufacturers operating in Lesotho can earn Duty Credit Certificates (DCCs). DCCs are tradable instruments, which can be used to offset the duty on imports of other products into SACU.

- **Overseeing tax management**

- As a member of SACU, Lesotho exporters are able to access almost the entire range of SACU rebates. Currently, enterprises make extensive use of the 470.03 rebate in terms of which enterprises are able to import, free of duty, materials that are used to manufacture products for export outside SACU. An enterprise that sells some of its produce within SACU will pay duty only on the imported raw materials used to make the goods that are sold there.
- Permanent maximum manufacturing tax rate of 15 percent on profits.
- No tax on dividends to local or foreign shareholders.
- Free repatriation of profits.

- **Investment attraction**

- Information dissemination to targeted investor pools.
- Trade missions to targeted markets and investors.

In addition, by being located in a Least Developed Country (LDC), Lesotho based manufacturers are accorded duty and quota free access to the following trading blocks, which work as facilitating forces to internationalisation: (Bennet, 2006:176-177; MIGA, 2006:23):

- SACU (estimated at between 50 to 52 million consumers).

- USA (estimated 295 million consumers) – manufacturers can benefit from AGOA.
- European Union (400 million consumers) – manufacturers can benefit from the Cotonou trade agreement.
- Lesotho based manufacturers also have preferential access to SADC, the Mercosur (South America) trade block, Japan, certain Scandinavian states, Canada, Australia and New Zealand.

7.3.4 Descriptive statistics

When looking at the means score of individual variables, three export constraints can be identified, namely, lack of finance for market research, lack of financial resources to finance export sales, and lack of excess manufacturing capacity for exports. The three exporting constraints are all internal to the enterprises and all loaded under factor 3 – financial constraints. Katsikeas and Morgan (1994:27), Fillis (2002:920), and da Silva and da Rocha (2001:606) noted that enterprises that blame their failure to export on internal problems are commonly the small enterprises, while large enterprises tend to attribute more weight for their failure to external forces. Leonidou (2004:284) noted that the smaller the enterprise, with its size measured either in terms of number of employees and/or sales turnover, the more vulnerable it is to barriers associated with resource limitations. While the study carried out by Fillis (2002:916, 923) found that both internal and external barriers constrain exporting for small enterprises, the qualitative results support the belief that internal barriers dominate the external export barriers faced by small enterprises. Two of the top five internal barriers that were considered very important in constraining exporting according to Fillis (2002:917), were insufficient production capacity and lack of financial resources. In this study, the barriers perceived to be most constraining in order of the mean scores starting from the highest are lack of finance for market research, lack of financial resources to finance export sales and lastly, lack of excess manufacturing capacity for exports. It is determined in this study that locally owned enterprises perceive financial constraints as being tough; since locally owned enterprises are predominantly small, the findings are consistent with previous studies. The constraints can be linked to the context of Lesotho's business environment. According to different reports in Lesotho, for a number of reasons, access to finance is difficult, especially for small business. The Ministry of Trade and

Industry, Cooperatives and Marketing (2002:11), and the World Bank (2007:69) for instance, indicate that lending is restricted by the limited availability and enforceability of collateral. The World Bank (2007:68-69) indicates that the financial sector is very small and concentrated and as such, banks engage in what appears to be de facto cartel-like pricing with high service charges and lending rates being consistently higher than those of neighbouring countries, despite operating within the same common market. It is further noted that the absence of adequate credit assessment information tools such as credit bureaux contributes to restricted credit.

7.4 RECOMMENDATIONS

The three export constraints, namely lack of finance for market research, lack of financial resources to finance export sales, and lack of excess manufacturing capacity for exports, all make up the third factor – financial constraints. When looking at the ANOVA results, it is evident that 100 percent locally owned enterprises perceived these constraints as being much more severe than 100 percent foreign owned enterprises and joint ventures did, with locally owned enterprises being predominantly micro and small. Considering that smaller enterprises play a pivotal role in the alleviation of poverty, job creation and economic rejuvenation (Freeman, Styles & Lawlay, 2012:88; Ayanda & Laraba, 2011:200), government needs to pay particular attention to addressing their constraints in order to enable the enterprises to participate in exporting activities. According to Ball et al. (2010:35), small enterprises are highly dependent on initiatives undertaken by the government to open foreign markets to trade. It is noted that unlike large exporting enterprises, most small enterprises lack offshore subsidiaries that can circumvent trade barriers and improve market access; hence government participation is important. MITM (2000:13) and MTICM (2008:50) revealed that in Lesotho there are different governmental agencies charged with the responsibility to implement the country's export and investment promotion, for example, the LNDC and BEDCO. However, the reports showed a number of limitations of the agencies with regard to the development of SMEs. Firstly, the responsibility for assistance and support to small enterprises in Lesotho has been borne by different stakeholders and role-players where their initiatives are normally not coordinated. The initiatives of stakeholders

and role players lacked coordination because of a lack of communication between the agencies, a lack of clarity regarding the roles of each agency, overlapping of areas of concern, and blurred responsibilities. A country like India also has different agencies that have been mandated to assist small enterprises across several functions including marketing, exporting, importing and adopting technology. For instance, the following schemes were implemented (Singh, Gary & Desmukh, 2010:57):

- Small Industries Development bank of India, which implements schemes for technology development and modernisation of small enterprise units.
- Small Industries Service Institutes that organise workshops on ISO-9000 certification and awareness regarding quality.
- Establishment of tool rooms that helped to provide tooling, dies, moulds and fixtures to small-scale enterprises at a very low price.
- Process-cum-product development centres that take up jobs from the Small Industries Development programme in order to improve the quality of products, reduce the cost of the products, and to enhance the marketability of the goods.
- The government helps small enterprises in marketing their products by organising international exhibitions, sponsoring delegations from small industries to various countries and providing pertinent information related to sales opportunities in international markets.

It is evident that the responsibility for assistance and support of small enterprises can still be borne by various stakeholders and role-players, but their roles need to be clearly defined and coordinated. As Lesotho is smaller compared to countries such as India, it is recommended that one agency be retained to handle all initiatives relating to small enterprises. This would minimise the communication and coordination difficulties.

It was also determined that there are few linkages between foreign owned and locally owned enterprises. This denies locally owned enterprises the opportunity to access additional capital that foreign enterprises could bring into the venture. It also means that when foreign enterprises depart, they would not leave behind positive spillovers. It was indicated in literature that relationships between enterprises would

form if each partner had something to offer. While locally owned enterprises in Lesotho might not possess financial muscle to bring into the joint venture due to their limited capabilities and capacity, their local knowledge would still make them valuable in the joint venture. The government, however, should also provide incentives to investors who opt for joint ventures so that locally owned enterprises could gain expertise and additional funds as a result of working with larger enterprises. Incentives could adopt the form of tax relief; low-interest loans; low prices on land leasing, electricity and water; such incentives are widely used in practice (Yin & Yin, 2005:61; Kiyono & Wei, 2008:56). Also, foreign enterprises could be required by law to appoint or hire locals in managerial and technical positions so as to enable knowledge transfer. At present, according to MTICM (2002:12), almost all managerial and technical jobs in foreign enterprises are performed by expatriates.

Lesotho is afforded duty and quota free access to a number of trading blocks and states, yet most of its exports are directed to either South Africa or the USA. The phasing out of the AGOA trade privileges would create a great challenge for Lesotho. The results have also revealed that during certain periods the country's export suffered due to the expiry of certain concessions that were coupled with AGOA. The government should assist enterprises in their search for markets in other regions. Enterprises could be assisted to attend trade shows in other regions where they could display their produce and in the process develop links with buyers there. In this manner, Lesotho based manufacturing enterprises could diversify their export markets. As it has been established that locally owned enterprises are predominantly small, it means that they do not access the incentive packages that are currently enjoyed by the mainly foreign owned medium and large enterprises. In fact, according to MTICM (2008:50-51), the LNDC, which is charged with the implementation of export and investment promotion of medium and large enterprises, is perceived, among SMEs, as serving foreign enterprises. SMEs are eager to be given access to the LNDC because of the benefits that it offers. Government should therefore make sure that local enterprises have access to the same incentives given to the large and medium enterprises, specifically those incentives that would influence their financial status such as short and long term loans, credit guarantee assistance offered to exporters, and import VAT credit facility for the local purchase of raw material and capital goods. The Chinese government

uses tax policies to promote small enterprises, which are (Singh, Gary & Desmukh, 2010:58-59):

- Income tax policies for small enterprises – where government lowered the tax rate from 33 percent to 18 percent for those enterprises with an annual profit of less than RMB 30,000 (approximately USD 3,600) and to 27 percent for those with an annual profit of between RMB 30,000 and RMB 100,000 (approximately USD 12,000).
- Taxation policy to promote employment – where a new urban job agency in its first year of operation finds jobs for urban residents, of which more than 60 percent are unemployed workers, the agency is eligible for an exemption from business income tax for three years.
- Taxation policies for high-tech enterprises – where high-tech enterprises are exempt from enterprise income tax for two years, counting from the year in which they begin operations.
- Taxation policies for service industries – where new enterprises engaged in transportation, post and telecommunication, consultation, information and technology services are all exempt from income tax for one year from the date of establishment.

These initiatives that were adopted for small enterprises by the Chinese government can be tailor-made to the promotion of exporting activity in Lesotho.

7.5. LIMITATIONS AND FUTURE RESEARCH

A limitation of this study was the lack of a reliable list of manufacturing enterprises in Lesotho as this could affected the extent to which the findings could be generalised to all Lesotho-based enterprises as a non-probability approach had to be adopted in selecting the sample. Also, the use of a single informant could be seen by some as a problem as it could have introduced measurement error due to individual bias.

In terms of areas of future research, future research could firstly focus on determining why micro enterprises perceive international constraints as severely as medium and large enterprises and not in line with those of small enterprises. Also future research should investigate why the leather industry has lower perceptions of

distribution constraints than enterprises from industries classified as “the rest”. It would also be of interest to investigate why almost 30 percent of enterprises that participated in the study are not interested in exporting. Lastly, future research could investigate why enterprises of different ownership structures differ in their perception for financial and international export constraints.

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APPENDIX



UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

An investigation into the factors influencing the exporting from Lesotho based manufacturing enterprises

Dear respondent,

The following questionnaire is part of a research study undertaken to investigate *the factors influencing the exporting from Lesotho based manufacturing enterprises*. Your personal thinking/experience is critical. There are no right or wrong answers but it is important to indicate your **personal view and thinking** irrespective of what you may believe others will think. It will be highly appreciated if you would complete this questionnaire as thoroughly as possible. This should take no more than 20 minutes of your time

All information will be treated as confidential and will only be used for academic purposes and cannot be linked to your organisation or to you as a respondent in any way. Data collected from the enterprise will be kept safely and might be used again in years to come but still for academic purposes only.

Participation is voluntary and you may withdraw from participation in the study at any time and without any consequences. By completing this survey you

- **Consent to take part in the research study (as mentioned above)**
- **Understand that the data gathering will be confidential**

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.....
Instructions for completion:

1. Please answer all questions as objectively as possible.
2. Indicate your answer with a cross in the space opposite the alternative you choose or write the response in a space provided where alternative answers are not given.

SECTION A: ENTERPRISE CHARACTERISTICS
Office use only
1. For how many years have your enterprise been manufacturing in Lesotho?

V1	<input type="text"/>
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.....

V2	<input type="text"/>
----	----------------------

2. How many employees are employed by your enterprise?

Less than 3 (micro)	<input type="text"/>
3-9 (small)	<input type="text"/>
10-49 (medium)	<input type="text"/>
50 or more (large)	<input type="text"/>

3. Which one of the following ownership structure best explains your enterprise?

100% locally owned	1
100 % foreign owned	2
Jointly owned (local and foreign)	3

V3	<input type="text"/>
----	----------------------

V4	<input type="text"/>
----	----------------------

4. What statement best describes the exporting status of your enterprise?

Our enterprise has not exported and would not export even when buyers from foreign countries want to place an order with us.	1
Our enterprise has not exported but would export if we get order(s) from buyers in foreign countries.	2
Our enterprise has not exported but plans on doing so in future	3
Our enterprise has exported in the past but is not currently exporting and do not plan to export in the future	4
Our enterprise has exported in the past, but is not currently engaged in exporting. However, we plan on exporting in future	5
Our enterprise does not actively look for export orders outside Lesotho but we export when we get orders from foreign consumers.	6
Our enterprise is currently exporting. Currently export sales is less than 10 percent of our production	7
Our enterprise is currently exporting. Currently export sales is between 10 and 50 percent of our production	8
Our enterprise is currently exporting. Currently export sales is between 51 and 75 percent of our production	9
Our enterprise is currently exporting. Currently export sales is between 76 and 100 percent of our production	10

5. If exporting which country is your most valued export destination in terms of the revenue it generates?

V5	
----	--

6. Which category below best represents the industry your enterprise operates in?

Food Processing?	1
Health & personal care products	2
Leather/rubber/plastic materials	3
Metal products ferrous	4
Forestry products & paper, furniture & fixings	5
Data processing & computer software	6
Computers/office machinery electronics	7
Industrial, commercial machinery	8
Instruments & control devices, medical equipment	9
Beverages & tobacco	10
Pharmaceuticals	11
Textiles & apparel	12
Glass & ceramics	13
Printing & publishing	14
Fuels & petroleum	15
Speciality chemicals	16
Automobiles	17
Other manufacturing not listed (please specify)	18

V6	
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SECTION B: FACTORS CONSTRAINING EXPORTING FROM YOUR ENTERPRISE

Definitions:

Export barriers/constraints: are defined as factors-external or internal to the enterprise that makes entry and expansion of operations into markets outside the enterprises' location difficult.

Choose an option from 1-5 that best represent the extent to which each of the following barriers has influenced exporting from your enterprise.

Office use only

	1 Not at all	2 Not much	3 No opinion	4 To some extent	5 To a great extent		
7.1 Lack of knowledge of export procedures						V 7	
7.2 Unable to identify opportunities in foreign markets						V 8	
7.3 Difficulty in communicating with clients overseas						V 9	
7.4 Difficulty in obtaining reliable middlemen abroad						V 10	
7.5 Difficulty in maintaining control over foreign middlemen that the enterprise will be using						V 11	
7.5 Lack of financial resources to finance export sales						V 12	
7.5 Lack of finance for market research						V 13	
7.6 Lack of excess manufacturing capacity for exports						V 14	
7.7 Lack of managerial time to deal with exports						V 15	

	1 Not at all	2 Not much	3 No opinion	4 To some extent	5 To a great extent		
7.8 Difficulties in finding qualified people to perform certain tasks associated with exporting						V 16	
7.9 Difficulty in meeting product quality standards						V 17	
7.10 Difficulty in meeting packaging requirements						V 18	
7.11 Difficulty in developing new products for foreign markets						V 19	
7.12 Unable to adapt the enterprise's products to export market's requirements						V 20	
7.13 Lack of awareness of export assistance available in Lesotho						V 21	
7.14 Unable to allow credit to foreign customers						V 22	
7.15 Lack of own internationally recognised brand names						V 23	
7.16 Lack of acceptance of Lesotho's products in the markets the enterprise wish to serve						V 24	
7.17 Slow collection of payments from foreign clients						V 25	

	1 Not at all	2 Not much	3 No opinion	4 To some extent	5 To a great extent		
7.18 The challenge of having to deal with foreign customers that have different habits						V 26	
7.19 Low demand for the enterprise's products in foreign market						V 27	
7.20 Difficulty in meeting foreign delivery dates						V 28	
7.21 Difficulties in meeting after sale service to customers abroad						V 29	
7.22 Risk and variations in exchange rates						V 30	
7.23 Difficulty in supplying inventory abroad						V 31	
7.24 High transportation costs for transporting products to foreign markets						V 32	
7.25 High insurance cost to cover products while in transit to foreign markets						V 33	
7.26 High tariffs charged on exports on enter into foreign markets						V 34	
7.27 Restrictions on the quantity that is allowed by foreign markets to enter their countries						V 35	
7.28 Low labour productivity in Lesotho						V 36	

	1 Not at all	2 Not much	3 No opinion	4 To some extent	5 To a great extent
7.29 High cost of labour in Lesotho					
7.30 Delays in sending monthly electricity bills by Lesotho Electricity Corporation resulting in power supply cut to factories for non-payment					
7.31 Insufficient water supply to factories					
7.32 Poor telecommunication services					
7.33 Inadequate container-handling facilities at Lesotho railway terminal					
7.34 Unsuitable storage facilities for the containers at Lesotho railway terminal					
7.35 Corruption in Lesotho					
7.36 Corruption in the target markets					
7.37 Political problems in Lesotho					
7.38 Industrial unrest in Lesotho resulting from employees' strikes					
7.39 Increasing absenteeism and deaths among the workforce predominantly from HIV/Aids					

V 37	
V 38	
V 39	
V 40	
V 41	
V 42	
V 43	
V 44	
V 45	
V 46	
V 47	

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	1 Not at all	2 Not much	3 No opinion	4 To some extent	5 To a great extent		
7.40 Unreliable supply of raw materials						V 48	
7.41 Difficulty in matching competitor's prices						V 49	
7.42 Political instability in foreign markets that the enterprises wishes to serve						V 50	
7.43 Poor economic conditions abroad						V 51	