

# Assessing public value from the Department of Small Business Development's export promotion programme

by

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## **DECLARATION**

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## Abstract

The South African Department of Small Business Development (DSBD) facilitates small and micro-enterprises' (SME) participation in trade exhibitions abroad, using Trade and Investment South Africa (TISA) as implementing agent. In this way, it intends to help SMEs succeed in the export market.

This research primarily aimed to assess the public value derived from expending taxpayer resources on these endeavours. Public value was assessed in terms of (i) contribution to the SMEs' growth in export turnover, and (ii) development of the SMEs' export capacity. A secondary examination was devoted to (i) the role of export-readiness selection criteria in the success or failure of the outbound trade missions programme for SMEs, and (ii) searching for alternative export promotion techniques that may augment DSBD's current practices so as to create greater public value.

Twenty SMEs who had participated in TISA-organised national pavilions abroad from 2014 to 2016 were selected. To address the primary research question, data was obtained through personal interviews with the enterprises. Enterprise Ireland's export-readiness checklist provided the basis for determining the degree of improvement in these SMEs' export capabilities pre-mission to post-mission.

Moving to the secondary study, the widely supported characteristics of an export-ready SME as defined by Pickernell (2016) were used as a benchmark to assess DSBD's criteria for enlisting SME participation. In search of possible alternatives for DSBD to consider, a literature search and subsequent study visits were conducted.

Regarding export growth, the research found that reasonable public value was derived as a result of the SMEs' participation in the national pavilions. When including SMEs' own efforts, public value improved considerably. However, in terms of improving the SMEs' export capabilities, the research revealed complete public-value failure on the part of DSBD/TISA, as no improvement could be ascribed to their efforts.

On the question of selection criteria, the research confirmed the validity of the Pickernell characteristics, having – for the most part – been present in all but one of the enterprises that had registered material export growth. On the other hand, enterprises that had failed to register exports, also failed to display the Pickernell characteristics. Whilst there was near perfect compliance in TISA's adherence to its own selection criteria, TISA set very low standards compared to those of Pickernell.

In searching for alternative models for DSBD to consider, the study discovered six internationally proven export promotion techniques. All six contain elements that could help address the identified deficiencies in DSBD/TISA's current practices.

The research concludes with a number of recommendations aimed at enhancing DSBD's offering and the public value it creates. These include the continuation of national pavilions, though with added measures to support enterprises with the proven ability to generate export sales. It is also recommended that TISA's selection criteria be aligned with the Pickernell characteristics, and that their exhibition selection methodology be revised. Finally, DSBD would be well advised to augment their current practices with a more holistic SME export promotion technique, for which a concept is provided to aid further in-depth research, modelling and testing.

## Opsomming

Die Suid-Afrikaanse Departement van Kleinsakeontwikkeling (DSBD) fasiliteer klein en mikro-ondernemings (KMO's) se deelname aan handelskoue oorsee, met Trade and Investment South Africa (TISA) as implementeringsagent. Sodoende wil DSBD dié ondernemings die uitvoermark suksesvol help betree.

'n Primêre oogmerk van hierdie navorsing was om te bepaal hoeveel publieke waarde geskep word deur belastingbetalersgeld aan hierdie inisiatiewe te bestee. Publieke waarde is gemeet aan die hand van (i) die bydrae tot groei in die KMO's se uitvoeromset, en (ii) die ontwikkeling van die KMO's se uitvoervermoë. 'n Sekondêre ondersoek is gewy aan (i) die rol van uitvoergereedheidskriteria in die sukses of mislukking van die uitwaartse handelsendingsprogram vir KMO's, en (ii) 'n soektog na alternatiewe uitvoerbevorderingstegnieke ter aanvulling van DSBD se huidige praktyke ten einde groter publieke waarde te skep.

Twintig KMO's is gekies wat van 2014 tot 2016 aan TISA-georganiseerde nasionale uitstallings oorsee deelgeneem het. Om die primêre navorsingsvraag te ondersoek, is data deur persoonlike onderhoude met die ondernemings bekom. Enterprise Ireland se kontrolelyns vir uitvoergereedheid het die grondslag gebied om te bepaal in watter mate hierdie KMO's se uitvoervermoëns van voor tot ná hulle deelname verbeter het.

Vir die sekondêre studie het Pickernell (2016) se kenmerke van 'n uitvoervaardige KMO, wat wyd ondersteuning geniet, as rigpunt gedien vir die beoordeling van die kriteria waarvolgens DSBD ondernemings vir deelname kies. In die soeke na moontlike alternatiewe wat DSBD kan oorweeg, is 'n literatuurstudie en daaropvolgende buitelandse studiebesoeke onderneem.

Met betrekking tot uitvoergroei bevind die navorsing dat redelike publieke waarde geskep is na aanleiding van die KMO's se deelname aan die nasionale uitstallings. Wanneer groei weens KMO's se eie pogings ingesluit word, verbeter publieke waarde aansienlik. Wat die verbetering van KMO's se uitvoervermoë betref, toon die navorsing egter dat DSBD/TISA geheel en al misluk het om publieke waarde te skep omdat geen verbetering aan hulle pogings toegeskryf kon word nie.

Op die vraag oor keuringskriteria bevestig die navorsing die geldigheid van die Pickernell-kenmerke, wat op een uitsondering na grotendeels teenwoordig was by al die ondernemings wat beduidende uitvoergroei aangeteken het. Daarteenoor het

ondernemings wat nie uitvoere kon bewerkstellig nie, ook nie oor die Pickernell-kenmerke beskik nie. Hoewel TISA se voldoening aan hulle eie keuringskriteria byna foutloos blyk te wees, stel hulle uiters lae standarde vergeleke met dié van Pickernell.

Om DSBD van alternatiewe modelle vir moontlike oorweging te voorsien, stel die studie ses internasionaal bewese uitvoerbevorderingstegnieke voor. Elk bevat elemente wat die geïdentifiseerde tekortkominge in DSBD/TISA se huidige praktyke kan help oorbrug.

Die navorsing sluit af met 'n aantal aanbevelings ter versterking van DSBD se aanbod en die publieke waarde wat dit skep. Dít sluit in die voortsetting van nasionale uitstallings, dog met bykomende maatreëls ter ondersteuning van ondernemings met die bewese vermoë om uit te voer. Daar word ook aanbeveel dat TISA hulle keuringskriteria met die Pickernell-kenmerke versoen, en hulle metodologie vir die keuse van skoue hersien. Laastens is dit gerade vir DSBD om hulle huidige praktyke met 'n meer holistiese uitvoerbevorderingstegniek vir KMO's aan te vul, waarvoor hierdie navorsing 'n konsep voorsien om verdere diepgaande studie, modellering en toetsing te ondersteun.

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**List of abbreviations**

BRI	Belt and Road Initiative
BRICS	Brazil, Russia, India, China and South Africa
DGCC	Dongguan Guangdong Commodity Display Centre
DIHK	Deutscher Industrie- und Handelskammertag
DSBD	Department of Small Business Development
DTI	Department of Trade and Industry
FDI	foreign direct investment
GDP	gross domestic product
GTC	general trading company
GVC	global value chain
EMIA	Export Marketing and Investment Assistance
INES	Integrated National Export Strategy
IPAP	Industrial Policy and Action Plan
NDP	National Development Plan
NEDP	National Exporter Development Programme
OECD	Organisation for Economic Cooperation and Development
PV	public value
PVT	public-value theory
SACC	South Africa Commodity Display Centre
SEDA	Small Enterprise Development Agency
SME	small and micro-enterprise
TISA	Trade and Investment South Africa

## Chapter 1: Introduction

This study set out to assess the expenditure of taxpayers' money on trade missions of the Department of Small Business Development (hereinafter "DSBD") to facilitate small and micro-enterprise (SME) participation in international trade exhibitions abroad. Given the mandate of DSBD to promote and develop small and micro-enterprises, medium-sized enterprises do not form part of this study.

Its primary objective was to consider whether funding of these missions could be considered justifiable in relation to their public-value outcomes, more specifically in relation to their contribution to SMEs' growth in exports and the development of SMEs' export capacity.

As secondary objectives, the research firstly aimed to establish the (in)appropriateness of DSBD's export-readiness selection criteria in the success (or failure) of these SME outbound trade missions programme. In developing the standards against which the selection criteria could be evaluated, the characteristics of successful exporting SMEs were determined through a literature review. The characteristics of an export-ready SME as defined by Pickernell *et al.* (2016:37-40) formed the criteria against which the participating enterprises were evaluated. Secondly, the study aimed at identifying potential alternative export promotion techniques that DSBD might wish to consider so as to bolster its public-value creation.

### 1.1 Background

To grow South African SMEs' exports and contribute to a positive national trade balance, DSBD has initiated outbound trade missions aimed at opening up international markets for local SMEs' products and services. These missions are arranged under the Department's Export Marketing and Investment Assistance (EMIA) scheme (DTI, n.d.(a)). In addition, the missions are in line with the Integrated National Export Strategy (INES), which includes in DSBD's offering the provision of assistance to SMEs with individual exhibition participation and primary market research, including the sourcing of foreign direct investment (DTI, 2015a).

Examples of these missions include those organised for local crafters to participate in the India International Trade Fair in New Delhi (DTI, 2012) as well as in AmericasMart in Atlanta, Georgia (RSA, 2016).

Through EMIA, the Department covers the cost of the SMEs' participation, including their flights, accommodation, subsistence allowances and exhibition space (DTI, n.d.(a)). Significant other indirect costs include ministerial and departmental travel costs to enable political and governmental participation in the event; departmental organisational, logistical and administrative costs prior to the mission; and costs attached to follow-up activities subsequent to the mission to establish participants' success rate in the endeavour.

EMIA has as one of its stated objectives the provision of assistance to SMEs "to develop new export markets and grow existing export markets" (DTI, n.d.(a)). In the same vein, in addition to increasing South African exports, the National Exporter Development Programme (NEDP) states the objective of SME export promotion as assisting these businesses to further develop through access to international markets (DTI, 2013). This research set out to test whether these objectives were indeed being achieved by DSBD's outbound trade missions aimed at facilitating SME participation in international trade exhibitions abroad. Firstly, it aimed to establish whether participating SMEs could ascribe any subsequent growth and export capacity development in their businesses – and thus, public-value creation – to their participation in the exhibitions. Secondly, it sought to assess the (in)appropriateness of DSBD's selection criteria to identify participants that were indeed ready to enter the export market. Finally, the research explored potential alternative export promotion techniques that may be deployed in pursuing DSBD's objectives.

Literature suggests that international trade holds a number of benefits for a country (Caballero, Quieti & Maetz, 2000) and that governments play an important role in supporting exports (Winter-Nelson, 2007:60-61).

Although relatively few SMEs participate in export activities, exporting can be an important tool for particular niche markets, sectors and within certain regions (Gumede, 2000:9; Gumede & Rasmussen, 2002:3; Pickernell *et al.*, 2016:33-34). Yet there are numerous barriers to export-market entry (Narayanan, 2015:106-117), and not all SMEs are suited for the export market. Successful exporting SMEs display specific characteristics (Pickernell *et al.*, 2016:37-40) that DSBD may have to factor in when developing criteria for considering enterprises for their missions. In this thesis,

these characteristics form the basis on which the export-readiness of the enterprises that participated in DSBD organised trade exhibitions are evaluated.

In the course of the literature review, it became evident that there is a dearth of studies practically assessing the correlation between the South African government's SME export promotion programmes and the growth and development recorded by participating SMEs. Similarly, very little exists in terms of studies evaluating the public value derived from government's expenditure on such missions. This shortage of research was confirmed by the Chief Operating Officer of Trade and Investment South Africa (TISA), DSBD's implementing partner, who suggested that no such study involving the work of TISA had been made from an independent academic perspective (Le Roux, 2018a). TISA intended to undertake studies in this regard as from 2019. This thesis could well be the first attempt (Le Roux, 2018a). Therefore, public policymakers could potentially benefit from the findings of this research to evaluate and calibrate future export promotion programmes for the targeted enterprises.

## **1.2 Research problem and objectives**

With close to thirty national pavilions being organised per year, each of which is a multi-million Rand endeavour (DTI, n.d.(d); DTI, n.d.(e); DTI, n.d.(f), DSBD expends significant amounts of taxpayers' money on facilitating SMEs' participation in international exhibitions. The intention is to promote growth in SMEs' exports so as to contribute more to the country's export output, and to help them develop their export capacity. As is the case with many other government programmes, and as confirmed by the Chief Operating Officer of TISA (Le Roux, 2018a), there is a dearth of empirical research evaluating the outcomes of the DSBD export promotion programme. Therefore, this research aimed to fill that void.

A first objective was to ascertain whether public value and benefit (i.e. an increase in the nation's trade exports and the development of SMEs) was being achieved from the public funds allocated to DSBD for supporting SME participation in South Africa's national pavilions at international trade exhibitions. The intention was to assess the extent of the public value added; not to evaluate the impact of the programme on the nation's export market. A survey of the theory and application of public value served as point of departure. Thereafter, the achievement of public value and benefit was

measured against the DSBD export development programme's contribution to (i) growth in exports and (ii) the development of export capacity for participating SMEs.

Closely connected to the above, the second objective was to evaluate the (in)appropriateness of DSBD's selection criteria in (not) achieving the desired public value and benefit. In working towards this objective, a comparative analysis was undertaken of the characteristics of SMEs that had participated in trade exhibitions through DSBD's facilitation, against the characteristics of export-ready SMEs as argued by Pickernell and colleagues (2016:37-40). These included factors such as the sector, size and age of the enterprise, and owner/manager-specific characteristics (e.g. age and experience).

A final objective was to identify potential alternative export promotion techniques that might supplement or perhaps replace DSBD's current practices in order to create greater public value.

To keep the pursuit of these objectives focused and structured, the study sought to answer the primary and secondary questions formulated below.

### **1.3 Research questions**

#### ***Primary research question***

Does DSBD's current outbound trade missions programme for SMEs, which is intended to facilitate SMEs' participation in international trade exhibitions abroad, create sufficient public value measured in terms of (i) its contribution to the SMEs' growth in export turnover; and (ii) the development of the SMEs' export capacity?

#### ***Secondary research questions***

Based on the above, (i) what is the role of export-readiness selection criteria in the success or failure of the outbound trade missions programme for SMEs, and (ii) are there alternative export promotion techniques that may supplement or replace DSBD's current practices in order to create greater public value?

The four elements flowing from the study are illustrated in Figure 1.1. The two primary research questions related to public-value creation – whether the SMEs had grown their exports and developed export capacity subsequent to the DSBD intervention. The first of the two secondary questions related to the role of DSBD's export-readiness

selection criteria, for which the characteristics as determined by Pickernell *et al.* (2016:37-40) – fully interrogated in Chapter 4 – were used as a benchmark against which to evaluate the enterprises. The second of the two secondary questions dealt with alternative export promotion techniques that DSBD could consider to supplement or replace their current practices.

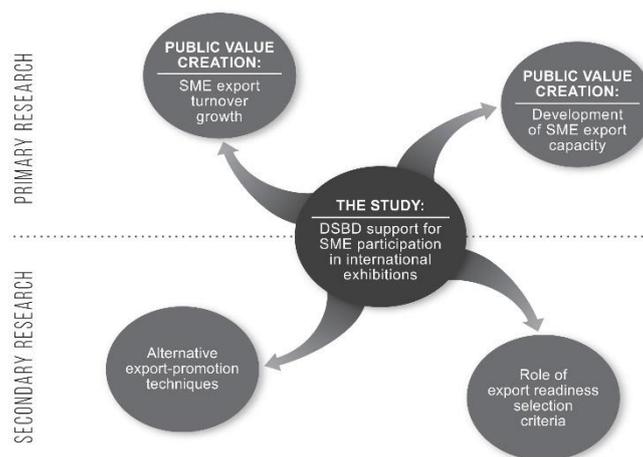


Figure 1.1: Illustration of research questions (Source: Author, 2018)

#### 1.4 Research design

The research adopted a pragmatic approach, entailing the study of the “actions, situations, and consequences, rather than antecedent conditions (as in postpositivism)” (Cresswell, 2014). Pragmatism, Cresswell says, is not committed to any one system of philosophy and reality with inquirers drawing from both quantitative and qualitative assumptions. As such, the study was based on evidence and data obtained through enquiry and observation of the actual performance of SMEs that had participated in DSBD’s trade missions.

In addition, since the data was mainly collected or existing data analysed, the study was, for the most part, empirical (Mouton, 2016:xiii). Data was collected through a researcher-administered questionnaire during interviews with SMEs that had participated in DSBD’s international trade missions organised by DSBD itself and/or the Department of Trade and Industry (DTI). The empirical study drew mainly on primary data (Mouton, 2016:62), using a mixed method that is both qualitative and quantitative (Cresswell, 2014). The questionnaire included the solicitation of pre-

programme intervention data (baseline information), against which the change attributed to the intervention could be assessed.

Moreover, alternative export promotion techniques were identified that DSBD could further explore as an addition to or replacement of their current export promotion offering. For this portion of the research, a non-empirical approach was followed (Mouton, 2016:xiii). This consisted of a desktop review of the literature, as well as structured interviews with a range of international trade promotion agencies identified through, inter alia, discussions with the China Council for the Promotion of International Trade and the Japanese External Trade Organisation. This non-empirical section of the study was aimed at identifying alternative SME export promotion techniques and to gain an understanding of their functioning. This did not require any technical measurements, collection instruments or analysis. The results of this section of the research are presented in a simple, reflective narrative style, which DSBD could then consider and commission further research on for potential application in the South African SME environment.

## **1.5 Research methodology**

### **1.5.1 Research subjects**

The subjects of this study were SMEs that had participated in South Africa's national pavilions at international trade exhibitions held abroad.

The first step in the process of obtaining data was to establish from DSBD what national pavilions they had organised over the three years 2014 to 2016, considering that DSBD was only established in 2014. The number of missions interrogated through the research was limited to four missions over the three-year period, spread relatively evenly over the period.

The second step comprised an appropriate sample of SMEs that had participated in these exhibitions. While it was not possible – within the timeframe of the research – to interrogate all SMEs that had participated, probability sampling was applied – a “method of sampling that utilizes some form of random selection” (Trochim, 2006). Five subjects per trade mission were selected by means of systematic sampling using the formula  $k=N/5$ , where “k” represented the interval size, “N” the total number of

SMEs in a trade exhibition, and “5” the sample size per exhibition. The first delegate was randomly selected, and was thereafter followed by every kth unit (Trochim, 2006).

### **1.5.2 Conceptualisation of measurements**

The study used three measurements.

The first was whether the SMEs that participated in DSBD’s national pavilions abroad had subsequently registered growth in export turnover. This called for quantitative data, or measurable numeric information (OSU, n.d.). Enterprises were required to indicate what export income had been achieved since participating in a particular trade mission. Furthermore, in order to link the export figures back to the trade events, they were asked to indicate the source of their export customers, i.e. either contact at/from the trade exhibition, or other sources unrelated to the trade exhibition. Extracts from the financial records of the enterprises served as secondary data to substantiate the reported growth.

The second measurement related to whether the particular SMEs had further developed their export capacity since participating in the trade exhibitions. To this end, qualitative data – descriptive and judgmental information (OSU, n.d.) – was obtained to analyse the development of their export processes and capacities subsequent to their participation in the exhibitions.

The third measurement, which was qualitative in nature, related to the role of DSBD’s export-readiness selection criteria in the success or failure of the outbound trade missions. To this end, the characteristics of the participating SMEs were considered against the characteristics of exporting SMEs as identified by Pickernell and colleagues (2016:37-40).

### **1.5.3 Data collection**

Firstly, quantitative data was collected by requesting each selected SME to complete a researcher-administered questionnaire. Once quantitative data was captured, a reliability analysis, as suggested by Mouton (2016:83), was done through the running of standard validation checks (e.g. frequencies, marginals, checks for missing values, checks for range of values) to ensure that the dataset was free of errors.

Secondly, qualitative data was collected by means of structured interviews with open and close-ended questions. The interview schedule consisted of (i) questions to probe the development of the SMEs' export growth and capacity since participating in the trade exhibition, and (ii) questions aimed at comparing the SMEs' characteristics to the characteristics of an export-ready SME. Interview responses were validated in terms of relevance, including a verification that the respondent within the sample SME had sufficient knowledge of the enterprise's export programme.

#### **1.5.4 Data analysis**

Three analyses were performed on the data collected:

Firstly, a quantitative financial analysis framework was developed to assess the value of export sales that had been generated by each of the SMEs since their participation in DSBD's trade exhibitions. The framework was structured so as to indicate what value of exports could be ascribed to the SMEs' participation in the trade exhibitions, for example from sales generated and/or orders taken or flowing from the SMEs participation in the exhibitions, and what could be ascribed to other efforts. This enabled a conclusion on whether DSBD's programme was truly promoting SME export growth (primary research question). The results of this analysis also helped separate the successful exporting SMEs from the unsuccessful ones – a necessary component for determining the role of export-readiness selection criteria in the success or failure of DSBD's outbound trade missions (secondary research question).

Secondly, a qualitative analysis framework was developed to evaluate whether the participating SMEs had built export capacity. This framework relied on predefined thematic coding – “an interpretive process, whereby data is systematically searched to identify patterns” (Smith & Firth, 2011:3) – as well as deductive coding – which is directed by existing concepts or ideas (University of Auckland, n.d.). Once again, the analysis was designed so as to separate the development of export capacity through DSBD's efforts from export capacity developed through other, non-related interventions. This enabled a conclusion on whether the DSBD programme was contributing towards developing export capacity for SMEs that participated in their facilitated missions (primary research question).

Thirdly, a qualitative comparative analysis framework was developed. This framework was “conjunctural” in its logic, examining the various ways in which specified factors

interact and combine to yield particular outcomes (Ragin, 1987:49). This was used to determine how the successful and unsuccessful SMEs that had taken part in DSBD's missions measured up against the characteristics of successful exporting SMEs identified in the literature review. In turn, this enabled a finding on whether DSBD's selection criteria were adequate to achieve their desired outcome (secondary research question).

### **1.5.5 Ethics**

The study required the collection of data not readily available in the public domain, and involved direct interaction with individuals, enterprises and government. For this reason, written consent was sought from the participating SMEs, while ethics approval was sought from the Department of Trade and Industry (DTI), whose Trade and Investment South Africa (TISA) agency implements the missions on their behalf.

### **1.6 Outline of chapters**

This chapter of the thesis introduces the topic and the rationale behind the research. Chapter 2 comprises a literature review on public value and export promotion for SMEs, while Chapter 3 examines the South African legislative and policy framework governing small businesses, exports and export promotion. Chapter 4 provides a detailed explanation of the research design, data collection and analysis tools. Chapter 5 and 6 are devoted to a description of the research findings – the former sets out the findings in respect of export growth, export capacity and export-readiness criteria; the latter describes the findings in respect of alternative export promotion techniques. Chapter 7 delves deeper into the findings, interpreting and analysing the results so as to arrive at answers to the research questions. Finally, Chapter 8 is devoted to conclusions and recommendations for the way forward in terms of DSBD's SME export promotion offering.

## **Chapter 2: Public value and promoting exports for SME's: a literature review**

### **2.1 Introduction**

The literature review covered in this chapter sets out to create a proper understanding of public value and international trade; and how the latter can help create and enhance the former. Then, considering the particular focus of this study on the public value created by DSBD's programme to facilitate SMEs' engagement in international trade exhibitions, the review hones in on SMEs – their characteristics, potential for and barriers to engaging in the export market, and the essentials of an export-ready enterprise. In addition, the literature is scrutinised for alternative techniques used across the globe to promote SMEs' participation in exports.

Using the public value embedded in international trade as a criterion to determine the success or failure of DSBD's export support programme for SMEs requires a firm grasp on what public value means. This is explored in the beginning of the literature review. In a nutshell, the literature confirms that public value extends beyond market economic considerations (i.e. financial return on investment), also encompassing ecological, political, social and cultural dimensions of value, all of which add value to the public sphere (Bennington, 2009:237). It includes embracing economic value through the generation of economic activity.

With this as background, the theoretical framework anchoring the rest of the literature review then constitutes three broad themes (see Figure 2), which are briefly unpacked below in Figure 2.1.

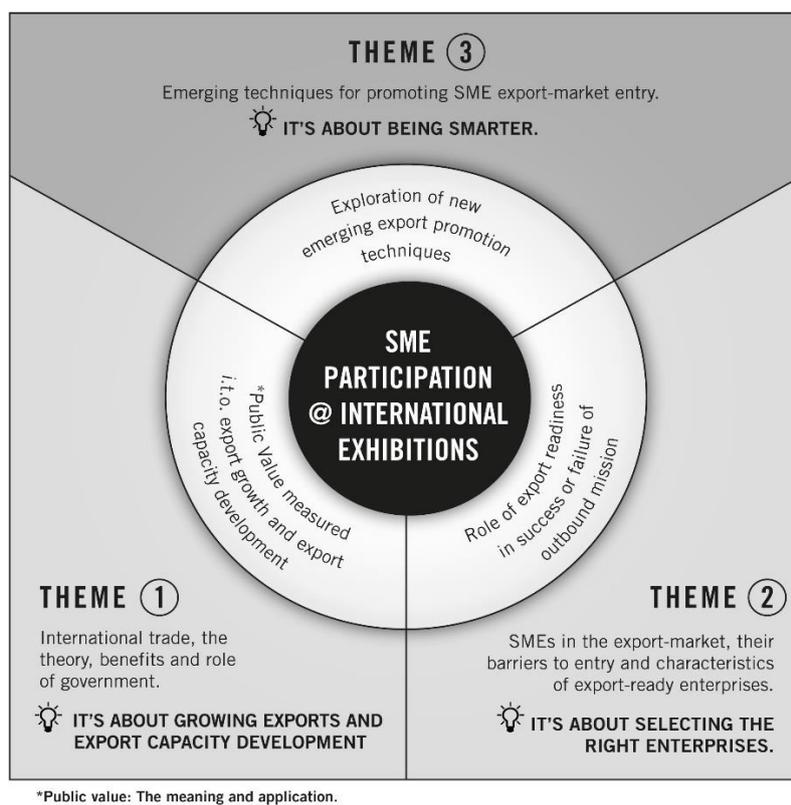


Figure 2.1: Illustration of theoretical framework (Source: Author, 2018)

- Theme 1: International trade – the theory, benefits, role of government, and the public value it creates

In studying the promotion of export trade and the value it creates, this research accepts as its point of departure that international trade has become an invaluable feature of the modern world (Volders, 2001:iv). Yet different policies and strategies on international trade inevitably draw on different underlying theories. Therefore, to grasp the public-value potential of DSBD's export promotion programmes for South African society, one needs to start with a proper understanding of the notion of international trade and all its underpinning theories.

Literature on the various models of internationalisation is examined, including the incremental or stages model, the 'born globals', the network model, the contingency model and the resource-based model. The review then delves into the question as to why international trade is important, advancing arguments on the benefits it holds. In the final instance, the review seeks to grasp and understand the role of government in promoting international trade.

- Theme 2: SMEs in the export market, their barriers to entry, and the characteristics of export-ready enterprises

Under this theme, the literature review turns the spotlight on SMEs in particular – their potential contribution to the economy in general (specifically through exports) and their barriers to export-market entry. This leg of the review also conceptualises the characteristics of an export-ready SME.

The importance of SMEs in the export market is examined from both an international and a South African perspective. Evidence suggests that in the South African context, the contribution by SMEs is small, which is somewhat out of kilter with international trends (Anand, Perelli & Zhang, 2016:6). Therefore, the study grapples with the dichotomy that whilst SMEs' contribution to total exports remains small, the export market itself is an important avenue for SMEs to expand in particular niche markets, sectors and regions.

The review also endeavours to understand the characteristics of successful exporting SMEs. Assessing the characteristics of successful exporting SMEs may firstly prove useful in determining where public value can be added through the implementation of government's export promotion programme. Secondly, it may assist in creating a benchmark against which DSBD-sponsored SMEs participating in international trade exhibitions can be measured. In this way, one is able to ascertain whether the programme is assisting in breaking down the barriers to SME export-market entry, and whether DSBD's selection criteria are adequate.

In addition, the literature review examines both the internal and external barriers that SMEs face in entering the export market. Acknowledging the various obstacles SMEs need to overcome to engage in exports, it then follows that enabling these enterprises to participate in international trade exhibitions may not in itself be sufficient to assist them in accessing export markets. Alternative or supplementary tools may need to be explored, which explains the need for theme 3.

- Theme 3: Alternative techniques for promoting SME export-market entry

Under this theme, the literature review explores alternative techniques for SME trade promotion that are being implemented internationally and may be considered as a replacement for or supplement to DSBD's current initiatives.

Six such new initiatives are identified and expounded on, which may serve as a platform for future DSBD SME export assistance exploration.

## **2.2 Theory and application of public value**

### **2.2.1 Understanding public value**

In reviewing the authoritative publication *Recognizing Public Value* by Moore (2013), Kavanagh (2014:57) reports Moore as arguing that

... [p]ublic value asks public officials to consider the benefits and costs of public services not only in terms of ... [rands] and cents, but also in terms of how government actions affect important civic and democratic principles such as equity, liberty, responsiveness, transparency, participation, and citizenship.

Public value goes beyond the 'bottom line' that is analogous to the private sector – instead, "it is about the net benefit of government actions" (Kavanagh, 2014:57).

In a similar vein, Prebble (2015:475) explains public value as deriving from "actions of the government (and associated entities) that affect the lives of people – the public" and "a net concept which measures the gain to the public from government activity".

Public value theory (PVT) attempts to create a dialogue between public officials and citizens about the values that public endeavours should pursue, and to fully consider combining economic efficiency and organisational forms. Because citizens are at the forefront of consideration, PVT involves more than cost-efficiency; it is also concerned with achieving goals (Turkel & Turkel, 2016:3). It follows, then, that public value extends beyond market economic considerations, and also encompasses ecological, political, social and cultural dimensions of value – all that adds value to the public sphere (Benington, 2009:237). Benington (2009:234) goes on to explain that the focus of PVT is not simply the individual interest, but also the broader public interest; PVT does not simply focus on "the needs of current users, but also on the longer-term public good", including the needs of future generations.

However, contrary to Moore's assertion that public value always involves the use of public authority (Prebble, 2015:474), Benington (2009:237) argues that it is not only the public sector that pre-eminently creates public value. Public-value outcomes can also be generated by the private sector, the voluntary sector and informal community organisations, as well as by governments. Benington also suggests that in the pursuit

of public-value goals, the primary role of government can be to rally the combined powers and resources of the state, the market and civil society behind a common purpose and/or strategic priority.

In the South African SME export promotion context, if one is to argue that export promotion assistance to SMEs does indeed create public value through growing their exports and developing their export capabilities, then Benington is correct, since government undertakes SME export promotion activities both independently and in association with private chambers of commerce. This study, however, was restricted to the efforts of the public authorities – in this instance, DSBD.

### **2.2.2 Measuring public value**

Moore (in Prebble, 2015:474) suggests that public value is about using public authority to redirect resources from individuals to achieve value for the common good. Public value entails public officials understanding what individuals' desires and perceptions are, and it accrues when the collective gains outweigh the personal sacrifices. Viewing it from this perspective, "[m]easuring public value is analytically unresolvable". Yet Moore (in Prebble, 2015:474) proposes that "representative democracy allows society to create a 'we' from a collection of free individuals", which can become common cause. Although the appraisal of public value includes facets of public satisfaction, it also goes beyond it. Such an appraisal will probably also include factors not easily registered in individual satisfaction surveys (Benington, 2009:239), including ecological, political, economic and social value added to the public sphere.

PVT highlights the importance of outcomes and processes. It is about what value is being added to the public sphere, by whom and how, and not merely about "inputs and outputs, or ... input/output ratios and productivity" (Benington, 2009:238). To explain, Benington (2009:238) cites the example of public-value perspectives that focus on improving public health rather than on the numbers of patients treated or by how many names or minutes waiting lists and times are reduced. Therefore, the measuring of public value often focuses on the processes by which public value is "created or co-created, and the outcomes for whom and with whom" (Benington, 2009:240).

Clearly, measuring public-value outcomes is complex and contested, and often requires balancing good and bad, and weighing up competing priorities.

In balancing and weighing its SME export promotion programme, DSBD should give consideration to the three important issues raised in Moore's concept of the 'strategic triangle' (Figure 2.2). It argues that public managers should focus their minds on what the important public value is that it wants to advance, what sources of legitimacy they would depend on to provide the resources required to sustain the endeavour, and whether the organisation has the necessary organisational capabilities to deliver the desired public-value results (Moore, 2012:25,30, Moore & Khagram, 2004:1).

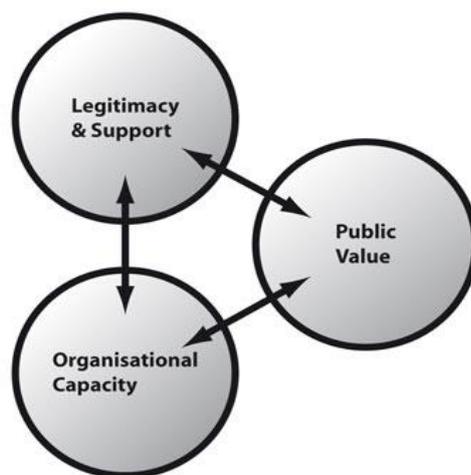


Figure 2.2: Illustration of Moore's Strategic Triangle (Source: Moore & Khagram, 2004)

In line with Benington's rationale above, however, it is proposed that since export promotion is inarguably a clear economic activity, increased export turnover and the development of SMEs' export capacity would be reliable criteria to measure the creation of public value in the DSBD context.

### 2.2.3 Recognising public value

In an attempt to find an alternative path for the development of measures that could capture the value being produced by government, meet public requirements for accountability and promote the use of performance measurement systems, Moore (2012:11) proposes a "different path". This path:

- (i) takes a developmental, strategic approach (Moore, 2012:11);
- (ii) recognises the different types of managerial work done in creating a valuable performance measurement system, i.e. technical work, managerial work, philosophical work and political work (Moore, 2012:13-15); and

- (iii) entails bringing together “the worlds of politics, external accountability, and performance measurement systems” (Moore, 2012:21).

To this end, Moore argues for the development of a “public value account” that will have to recognise:

- (i) that the assets government employs to promote “socially valuable results are not restricted to money” (Moore, 2012:21);
- (ii) “that individuals and their satisfaction are not necessarily the appropriate arbiter of public value” (Moore, 2012:21); and
- (iii) That government actions “will be judged by deontological standards of fairness and justice as well as utilitarian standards of satisfying individual clients or achieving desired social outcomes” (Moore, 2012:22).

Figure 4 below depicts what such a “public value account” may look like, bringing together the financial costs, the achievement of desired outcomes, client satisfaction, and “the degree to which state authority was being used, and ... government agencies were acting fairly” in pursuing a prosperous society (Moore, 2012:24).

<b>PUBLIC VALUE ACCOUNT</b>	
Use of Collectively Owned Assets and Associated Costs	Achievement of Collectively Valued Social Outcomes
Financial Costs	Mission Achievement
Unintended Negative Consequences	Unintended Positive Consequences
	Client Satisfaction
	Service Recipients
	Obligates
Social Costs of Using State Authority	Justice and Fairness
	At Individual Level in Operations
	At Aggregate Level in Results

Figure 2.3: Schematic depiction of a public value account (Source: Moore, 2012:29)

In addition to the “public value account”, Moore (2012:25) proposes that a “public value scorecard” also be introduced. Such scorecard should include the “public value account”, as well as the measures that direct management attention to “the current position of the organisation in its environment, whether and how operations can be sustained, and how both current operations and future positioning might be improved through particular investments that embodied the continuous learning of the organization” (Moore, 2012:25).

In determining whether DSBD’s export promotion programme for SMEs delivers the requisite public value, this thesis drew on the adoption of the principles contained in Moore’s arguments above.

## **2.3 International trade: meaning, theories, benefits and the role of government**

### **2.3.1 Meaning of international trade**

International trade can be defined as “the exchange of goods and services across international borders or territories” (Abedini, 2011). The important contribution of international trade to the economic growth of individual nations seems irrefutable. In fact, the Global Policy Forum predicts that until 2030, “60[%] of the world economy will be exchanged internationally” and “the share of the rest of the world in each national economy will be more than the share of his own domestic economy” (Abedini, 2011).

### **2.3.2 Theories of international trade**

The explanation above is however overly simplistic. International trade is underpinned by substantial theory, which economists, businesses and governments use as guidelines to design their own policies and strategies for regulating and promoting international trade.

In exploring the theories underpinning international trade, this research accepts as its point of departure that these underpinning theories are all premised on the notion that international trade is a feature of the modern world. It is also acknowledged that in the real world, policies and strategies inevitably draw on different aspects from various theories. Nevertheless, in order to understand what drives policy thinking, the notions contained in the various theories ought to be examined.

### **2.3.2.1 Classical or country-based trade theories**

#### Mercantilism

Mercantilism developed in the sixteenth century, when economists argued that a country's wealth was based on the amount of gold and silver it held as reserve. To increase the country's wealth, the objective was to increase those holdings. Mercantilists believed that this could be achieved by increasing exports and discouraging imports. If one country traded goods with the other, the difference in value needed to be settled in gold and silver. Therefore, the objective was for the country to have a trade surplus – with exports exceeding imports – or, stated differently, to avoid a trade deficit (Carpenter & Dunung, 2012:58-59).

#### Absolute advantage

The foundations of the theory of absolute advantage were laid by Adam Smith in 1776 (Carpenter & Dunung, 2012:59). The theory focuses on a country's ability to produce products or services more efficiently than other nations. The rationale was that trade between countries should not be restricted or regulated, but should arise naturally according to market forces. Through specialisation, countries could use their comparative advantages to specialise, which led to greater efficiencies as workers became more skilled. Production too became more efficient, given the motivation to increase specialisation by creating faster and better production methods. Increased efficiencies, the theory suggested, would encourage trade for the benefit of people in both trading nations (Carpenter & Dunung, 2012:59).

#### Comparative advantage

Those disputing the theory of absolute advantage argue that whilst some countries had an advantage in many areas, others had no discernible absolute advantage. In 1817, David Ricardo responded to this challenge by developing the theory of comparative advantage.

The basic distinction between absolute and comparative advantage lies in the argument that even though two countries may be able to produce the same products, trade could still ensue between them when each focuses on the product it can produce at a lower opportunity cost instead of producing both goods itself (Carpenter & Dunung, 2012:60; Kling, 2008). Comparative advantage, therefore, concentrates on

relative productivity differences, while absolute advantage looks at absolute productivity.

### Factor proportions

Building on Ricardo's theory of comparative advantage, the two Swedish economists Eli Heckscher and Bertil Ohlin developed a theory on how a country may gain comparative advantage by deploying its abundant factors, such as land, labour or capital. Products manufactured making intensive use of abundant factors (resources) give a country comparative advantage and could be successfully exported. Conversely, a country will import products that require scarce factors to manufacture, yet are in high demand (Carpenter & Dunung, 2012:60-61; Kling, 2008).

### **2.3.2.2 Modern or firm-based trade theories**

#### Similarity theory

The similarity theory attempts to explain intra-industry trade. It suggests that consumers in countries at similar stages of development share certain preferences. Companies first produce with domestic consumption in mind. Therefore, when they start considering exporting, the countries that offer the most potential for trade are often those where customer preferences are similar to preferences back home.

The similarity theory also asserts that intra-industry trade in manufactured goods is most common between countries with similar per-capita incomes (Carpenter & Dunung, 2012:62).

#### Product lifecycle theory

The product lifecycle theory is a modern, firm-based international trade theory that states that a product lifecycle can be divided into the three distinct stages of new product, maturing product and standardised product. Different stages can be executed in different countries. Carpenter and Dunung (2012:62) cite the example of the personal computer, of which the innovation stage was based in the United States, whereas the current standardisation stage occurs in low-cost countries, such as those in Asia.

#### Global strategic rivalry theory

Firms only boast a competitive advantage over global competitors because they have purposely developed that competitive advantage. This is done by optimising the

barriers to entry, such as research and development, the ownership of intellectual property rights, economies of scale, unique business processes or methods, extensive experience in the industry, as well as the control of resources or favourable access to raw materials (Carpenter & Dunung, 2012:63).

#### National competitive advantage theory

This new and minimally tested theory asserts that a nation's competitiveness depends on the capacity of its industries to innovate and upgrade. It explains why some nations are more competitive in certain industries. Four determinants play a role, namely local market resources and capabilities, market demand conditions, suppliers and complementary industries, and firm characteristics. This leads to healthy rivalry between local firms, which in turn spurs innovation and competitiveness. In addition, by its actions and policies, government also has a role to play in increasing the competitiveness of firms and, occasionally, entire industries (Carpenter & Dunung, 2012:63).

It is argued that, in the real-world economy, it is not *one* of the modern trade theories that applies to a country's economy, but instead a *combination* of theories – as Van Berkum and Van Meijl (2000:506) put it: “There no longer exists one general theory of international trade.” In the South African context, for example, the similarity theory would apply to certain products, such as wine, which exceeds domestic demand and is now being exported to other developing countries, including India and China. At the same time, the product lifecycle theory combined with the global strategic rivalry theory also apply, which can for instance be seen in the competitive local manufacturing of the BMW 3 Series and C-Class Mercedes for the global market.

#### **2.3.3 Creating public value: the benefits of international trade**

International trade accounts for a good part of a country's gross domestic product (GDP), particularly for developing countries, where it is one of the most important sources of revenue and a major driver of economic growth (Economy Watch, 2010). Nations with strong international trade have become prosperous and can strongly influence the global economy. Whilst the opposite may also hold true, global trade can become one of the major contributors to the reduction of poverty (Economy Watch, 2010).

Caballero, Quieti and Maetz (2000) advance the following three reasons why international trade is important. It is proposed here that these very reasons also explain the significance of global trade as a conduit for creating public value.

(i) International trade contributes to economic growth.

Firstly, international trade allows a country to buy goods and services from destinations where this costs less to produce. This releases resources that would otherwise have been tied up locally in the production of the now imported goods and services. The freeing up of resources can in turn enable a comparative increase in the production of other important goods or the delivery of value-added services (Caballero, Quieti & Maetz, 2000). On the other hand, however, for developing economies, it can have a negative impact on economic growth, for example, should local producers be side-lined due to them not being able to adapt to new technologies (Zahonogo, 2016:43).

Secondly, global trade creates economies of scale. While many enterprises find that the domestic market is not large enough to manufacture a particular product feasibly, finding an external market enables expansion of the domestic market. This provides for the production of a greater number of the particular product. In this way, production becomes more feasible because production of a number of units reduces the average product cost (Caballero, Quieti & Maetz, 2000).

Finally, when countries open up their markets to international trade, they compel their local industries to compete with goods and services that are produced abroad. This necessitates producers to become more efficient and competitive, often leading to lower prices, which can be passed on to the consumer (Caballero, Quieti & Maetz, 2000).

(ii) Trade enhances a greater choice and diversity of goods.

International trade allows for an array of goods and services to be made available to the national market, which would not have been available otherwise. Since these goods and services include capital goods, global trade not only favours consumers, but can also assist in the development of local production capacity (Caballero, Quieti & Maetz, 2000).

(iii) Trade helps stabilise price fluctuations.

International trade helps smooth out periodic excessive demand for or excessive supply of particular goods and services. This guards against excessive price fluctuations and eventual supply shortages in the domestic market (Caballero, Quiret & Maetz, 2000).

### **2.3.4 Models of internationalisation**

Over the past couple of decades, there has been an evolution of ideas about exporting and internationalisation. These are set out in Jaeger and Rudzki (2007:4-5) as the incremental or stages model, the 'born globals', the network model, the contingency model and the resource-based model.

The incremental or stages model explains how companies move through various stages of internationalisation. These include direct exporting, establishing a representative office or appointing a representative, manufacturing in the foreign market, collaboration, joint ventures and strategic alliances. Increasing knowledge and a commitment to foreign operations are reflected over time (Jaeger & Rudzki, 2007:4-5).

The 'born globals', in turn, are companies that target global markets from their inception. They develop a multiplicity of markets simultaneously, using entrepreneurial and proactive strategies to exploit international opportunities by responding rapidly. Typically, 'born globals' are companies that utilise the opportunities presented by the advances in information and communications technology, with the rise of the dot.com companies serving as a typical example (Jaeger & Rudzki, 2007:4-5).

In terms of the network model, the process is determined by the set of relationships that a company develops as part of a larger network system. Entry into international markets is mostly dependent on having a relationship with a network of dependent associates. It advocates that a company's strategy develops as a pattern of behaviour shaped by a variety of network relationships (Jaeger & Rudzki, 2007:4-5).

The contingency model asserts that the company's international development is 'contingent' on a wide range of market or company-specific factors. This may entail dynamics such as acquisitions, mergers, alliances or relocation to countries where production is cheaper, which may "cause companies to leapfrog stages or enter markets that are high in psychic distance" (Jaeger & Rudzki, 2007:4-5).

Finally, the resource-based model claims that where an enterprise possesses strategic resources, it provides an organisation with an opportunity to develop a competitive advantage over its rivals. This model applies mainly to large enterprises and is not particularly applicable to SMEs (Jaeger & Rudzki, 2007:4-5).

### **2.3.5 International trade: the role of government in supporting exports**

Governments across the globe recognise the importance of international trade. Many have reviewed and streamlined their trade policies, and their economic reform programmes have improved the overall policy framework to create environments more conducive to trade (Olaru, 2012:143).

Governments can also play an important part in establishing an export presence for their producers internationally. A strategic consideration in this regard is that if “a country’s producers are among the first to establish trading relationships with agents in ... [other collaborating] countries, and if those relationships are mutually beneficial, suppliers from other countries will not easily break into the market” (Winter-Nelson, 2007:60-61). There are therefore significant inducements for governments to aggressively promote exports of their countries’ producers into specific markets, as the cost of failure to enter them in a timely fashion may in the long term deprive their countries’ enterprises from export success there. This may in turn be detrimental to the country’s national exports and its balance of payment (Winter-Nelson, 2007:60-61).

Market research, technical and administrative services as well as promotional activities constitute the cost-of-doing-business that must be funded for producers to access the international market. If a government lacks the capacity to fund these, it needs to find alternative mechanisms to provide the required services to its business community (Winter-Nelson, 2007:60-61).

In general, governments offer export support to local enterprises so as to improve the enterprises’ own international competitiveness as well as the country’s trade balance. In a South African SME context, Van der Walt (2007:5) succinctly captured this mutual benefit associated with export support by stating that it is about “what the South African SME sector can do for increased exports” as well as “what increased exports can do for the South African SME sector”.

The extent to which a government commits to export promotion tends to depend on the nation's degree of "global trade expansion and ... relative competitiveness with other trading nations" (Diamantopoulos, Schlegelmilch & Tse, 1993:5). Yet government support is restricted by the World Trade Organisation's General Agreement on Tariffs and Trade (GATT), which typically confines such support to back-up services. These take on different forms in different nations. The form of the support, it is said, largely depends "on a country's trade policy and its view towards government intervention in the business sector" (Diamantopoulos, Schlegelmilch & Tse, 1993:5). Government support can vest directly in state departments or agencies, or be provided through privately funded and/or quasi-governmental trade promotion institutions (Diamantopoulos, Schlegelmilch & Tse, 1993:5).

According to Diamantopoulos, Schlegelmilch and Tse (1993:6-7), export support programmes of government can be loosely divided into indirect and direct services and programmes. Indirect services and programmes are not specifically designed for export, yet could generate future export benefits. These include all types of government support aimed at improving productivity, undertaking research and development, technology innovation, human resources planning, regional and sectoral development, and fiscal measures such as tax and/or investment incentives. Direct services and programmes, on the other hand, are purposely designed to enhance the export competitiveness of firms. These would include providing standardised and customised market information and advice on exporting in general, and on export marketing in particular, such as the United Kingdom's computerised export intelligence service provided by the British Overseas Trade Board. Direct services and programmes may also entail rendering business assistance ranging from raising awareness to facilitating actual market entry and support backed up by insurance and financing arrangements to cover financial risks (Diamantopoulos, Schlegelmilch & Tse, 1993:6-7).

Particular activities that government(-related) trade promotion agencies, including those in South Africa, seem to find useful in promoting global trade and exports include participation in global or regional trade events, sector-specific trade missions, cross-sector trade missions, partnering events, media tours, incoming missions, networking with investors, and missions to international finance institutions (Olaru, 2012:146-147).

To Seringhaus and Rosson (in Diamantopoulos, Schlegelmilch & Tse, 1993:7-8), the role of export promotion consists of three phases. The first is an awareness-creation phase to motivate companies to become involved in exporting. This would include sensitising companies to the existence of various export support programmes and the opportunities and benefits to be derived from pursuing them. Indeed, whilst awareness of assistance is essential, it is in itself insufficient to secure actual usage – it must “be accompanied by ... an expectation that using such assistance will indeed help”. The second phase aims to understand and meet companies’ needs in relation to export involvement, “supplying the right information to the right firms at the right time”. It involves supplying objective information, providing planning assistance, preparing the export involvement process, and rendering services to improve managerial expertise and knowledge, such as market visits. The third phase is about introducing businesses’ products to a foreign market through support services such as export marketing research schemes, trade fairs or exhibitions and overseas missions (Diamantopoulos, Schlegelmilch & Tse, 1993:7-8).

Export promotion programmes should be mindful of the different stages of companies’ ‘export involvement processes’. The needs of a company in the preparatory export stage will for example differ from those of an established exporter. Therefore, ensuring a range of services that are appropriately differentiated and aimed at the right user segments poses a fundamental challenge to policymakers (Diamantopoulos, Schlegelmilch & Tse, 1993:8).

A discourse of particular relevance to SME participation in international trade fairs is whether firm size affects internationalisation efforts. Many governments have established public trade promotion agencies endowed with significant resources to promote exports. In most instances, a large portion of these agencies’ efforts is dedicated to SMEs, as it is believed that these companies are more heavily affected by barriers to trade. The question is whether government trade promotion efforts have a similar impact across all business sizes, or whether the size of the firm plays a role. This question formed part of Martincus, Carballo and Carcia’s study (2010:215) on the trade promotion programme of the Fundación Export-Ar, a non-profit organisation established in 1993 to assist Argentinian enterprises to enter the international market. The researchers found that impediments to international trade would likely have a stronger deterring effect on smaller companies because they “lack the scale and thus

resources to acquire the needed information”. For this very reason, efforts by public trade promotion bodies may have a stronger impact on such smaller businesses. Noting that only small and medium enterprises in the Fundación Export-Ar’s trade promotion programme had reported significant effects, the researchers concluded that public programmes focusing on SME assistance could indeed be seen as “well targeted”.

In sum, the evidence suggests that public investment in international trade promotion activities have merit, especially for the SME sector. Having established this, the next section of the literature review zeroes in on SMEs’ actual and potential contribution to national economies and exports, their international trade barriers, and the attributes of a successfully exporting SME.

## **2.4 SMEs in the export market**

### **2.4.1 SMEs and their potential contribution to national exports**

#### **2.4.1.1 The importance of SMEs in the economy**

SMEs form the backbone of the economy, accounting for some 95–99% of all companies (Robu, 2013:86). Whether in an individual state or the global economy, these companies “represent an essential source of economic growth ... in advanced industrialized countries, just like they do in emergent economies” (Robu, 2013:86). Robu (2013:86), drawing on the Organisation for Economic Cooperation and Development’s (OECD) statistics, suggests that SMEs represent 95% of enterprises and ensure 60–70% of jobs. In addition, he argues that SMEs are major contributors to a country’s GDP, regardless of the level of development, with the SME GDP contribution at 60% in countries such as Japan and China, and 65% in the United States. In lower per-capita income countries, this contribution is even higher (Robu, 2013:86).

These global patterns generally also hold true for South Africa. Bankseta (n.d.) estimates the total economic output of SMEs at around 50%, and their contribution to the labour force at some 60%. This trend is confirmed by the investment institution Futuregrowth (Long, 2016:3), who, although rating SMEs’ GDP contribution a little lower at around 35–40% agrees that these enterprises account for 50–60% of the labour force. Some argue that these figures should also take into account the poor measurement of South Africa’s informal economy, essentially all micro-enterprises.

Making allowance for inefficient measuring, Wills (2009:16) and Loots (in Saunders & Loots, 2005:92) respectively suggest one could add at least a further 7% or as much as 12,6% to the estimates above. Gumede (in Van der Walt, 2007:4) too suggests that SMEs in South Africa employ about half of the labour force and contribute approximately 50% of GDP.

So, although the global trend seems to apply to South Africa, the “figures fall short of the potential contribution from SMEs” (Van der Walt, 2007:4). There seems to be scope for growth in the SME sector, especially with regard to its contribution to GDP.

#### **2.4.1.2 The importance of SMEs in the export market**

Moving on to SMEs' role in the export market, a survey undertaken in the United Kingdom determined that SMEs largely depend on the local market, with minimal trade nationally or internationally (Love *et al.*, in Pickernell *et al.* 2016:31). This would suggest that, at least from a developed-economy perspective, SMEs do not materially add to national exports. Of late, however, an increasing number of 'born global' firms (Knight *et al.*, in Pickernell *et al.* 2016:31) are emerging, leapfrogging the stages of internationalisation.

The OECD (2004:6) also found that, broadly speaking, SMEs show a disproportionately low level of activity in international markets. An important point made in the OECD report is that “[t]hose SMEs that are internationally active tend to be larger than the average SME” (OECD, 2004:6). However, it is also pointed out that unfettered access to global markets has created potential for a category of start-ups in niche markets (OECD, 2004:8).

In the South African context, although the aforementioned statistic may appear somewhat dated, these trends are similar. An International Monetary Fund working paper of 2016 confirms that over the period 2010-2014, “the share of [South African] SMEs in the total external trade remains tiny”, with large firms still dominating with an export market share of over 90% (Anand, Perelli & Zhang, 2016:6).

Yet Gumede (2000:9) points out that for a selected range of products, the SME contribution could be as high as between 35% and 40%. When analysing the manufacturing sector's exports, the SME contribution to total exports to particular regions can be substantial. In 1997, for example, South African SME exports

contributed between 35% and 40% of total exports to the European Union (Gumede & Rasmussen, 2002:3).

In summary, therefore, the literature suggests that even though SMEs' contribution to total exports remains small, the export market itself can be an important vehicle for SMEs in particular niche markets and sectors, and with certain regions.

## **2.4.2 Barriers to SME export market entry**

Although many governments globally are committed to assisting SMEs to access export markets, and despite it having been established above that SMEs do have a key role to play in national economies and exports, the literature reveals that these enterprises face a number of barriers to entry. For export promotion programmes – including those of the South African government – to be effective, these barriers need to be taken into account.

In analysing export barriers for SMEs, Narayanan (2015:109-110) reviewed the work of various researchers in this field, including Leonidou (1995, 2004), Arteaga-Ortiz and Fernandez-Ortiz (2010), Arndt, Buch and Mattes (2012), Morgan (1997) and Kneller and colleagues (2011). He concluded that the most popular and most cited classifications were those introduced by Leonidou (Narayanan, 2015:111). These barriers could be either internal – such as informational, functional, distribution and logistics-related, or marketing or promotion-related – or external – such as procedural, governmental, task-related and environmental.

### **2.4.2.1 Internal barriers**

#### Informational barriers

Of all the resources required to successfully enter the export market, sufficient information and knowledge is the most important. Citing the Uppsala model, Narayanan (2015:111-112) explains that internationalisation consists of gradual steps of incremental knowledge accumulation. According to this model, internationalisation grows in incremental steps as the enterprise's knowledge grows, namely from (i) no regular export activities, to (ii) export via representatives in the foreign market, to (iii) having a sales subsidiary in the foreign market, and finally on to (iv) production or manufacturing in the foreign market.

Apart from being crucial for entering the international market, accurate information is also the most difficult to obtain. Limited information on how to locate and analyse markets, unreliable data about the international market and foreign business opportunities plus an inability to contact overseas customers are among the information inefficiencies that result in insufficient international trade activity (OECD, n.d.).

### Functional barriers

Human resources, production and price-related issues, finance (Narayanan, 2015:112-113) as well as distribution and logistics (OECD, n.d.) are the main functional barriers that impede export market entry.

Human resources barriers may include a lack of managerial time to deal with internationalisation, an insufficient number of or insufficiently trained personnel for internationalisation, and cultural difficulties in managing foreign employees (OECD, n.d.).

Product and price barriers are caused by difficulties developing new products for foreign markets, adapting product designs or styles, meeting foreign markets' quality standards and specifications, securing excess production capacity for foreign markets, offering satisfactory or competitive prices, and providing credit facilities to foreign customers (OECD, n.d.).

Financial barriers include a shortage of funds to finance the working capital required to invest in internationalisation and the related insurance (OECD, n.d.).

To overcome the barriers mentioned above, managers need to be exposed to international experience to acquire and maintain knowledge about international activities. There is also an increasing trend of forming strategic alliances between enterprises to improve their performance level by sharing resources and risks (Zhao, 2014, in Narayanan, 2015:113). The benefits derived from such an approach include a reduction in transaction costs, increased market access, and improved access to information.

### Marketing, distribution and logistical barriers

A key factor ensuring an enterprise's successful entry into the export market is its ability to overcome the marketing, distribution and logistical barriers attached to

internationalisation (Ren *et al.*, 2014, in Narayanan, 2015:114). These include difficulties establishing distribution channels in foreign markets, obtaining reliable foreign representation, supplying inventory abroad, offering technical and after-sales service, and adjusting promotional activities to international markets (OECD, n.d.).

#### **2.4.2.2 External barriers**

##### Procedural barriers

These can be classified as either controllable, which are routine tasks that one can learn to control over time and with experience, or non-controllable, which are issues that have to be dealt with case by case (Ramaswami & Yang, 1990, in Narayanan, 2015:114).

The OECD (n.d.) regards procedural barriers to include unfamiliarity with exporting procedures, slow collection of payments from abroad, and difficulties communicating with foreign customers, enforcing contracts and resolving disputes.

##### Governmental barriers

Governmental barriers can pertain to one of two issues, namely the degree to which assistance and support is provided to existing and potential exporters, and the restrictiveness of the regulatory framework in relation to export practices (Leonidou, 2004, in Narayanan, 2015:114).

The OECD (n.d.) lists these barriers as a lack of government assistance or incentives, unfavourable rules and regulations, restrictions to foreign ownership and the movement of people or businesspersons, unfair treatment compared to domestic firms in terms of tax, eligibility to affiliate, public procurement and competition regulation, as well as a lack of legislative transparency. Governmental barriers include both tariff and non-tariff barriers (OECD, n.d.).

##### Task-related barriers

These are at play where enterprises are expected to spend a considerable amount of time and money to accommodate various customer requirements, including requirements relating to topography, climatic conditions, the foreign country's national economy and habits (Narayanan, 2015:115).

The OECD (n.d.) concurs, citing different customer habits and attitudes as well as keen competition in foreign markets as task-related barriers.

### Environmental barriers

Environmental barriers include issues associated with the economic, political, legal, social and cultural environment of the international market in which the enterprise is operating (Narayanan, 2015:115-116).

These include poor or deteriorating economic conditions abroad, foreign currency exchange risks, unfamiliar foreign business practices, different sociocultural traits, verbal or non-verbal language differences, inadequate infrastructure for e-commerce, as well as political instability in foreign markets (OECD, n.d.).

### **2.4.3 Characteristics of successful exporting SMEs**

In their study on the most important traits of a successfully exporting SME, Pickernell and colleagues (2016:37) found a distinct difference in basic enterprise characteristics between SMEs that exported and their non-exporting counterparts. These characteristics included the sector, size and age of the enterprise, as well as owner/manager-specific characteristics, such as age and previous experience.

Generally, the study showed that larger enterprises were more likely to export than their micro-sized peers (Pickernell *et al.*, 2016:38). In addition, enterprises younger than ten years were less likely to export, while enterprises with graduated or higher qualified owners or managers tended to engage in exporting activities, no matter the age of the business (Pickernell *et al.*, 2016:40). Pickernell and colleagues also made a link between exporting activity and SMEs with intellectual property, as well as those effectively using website technology associated with e-commerce trading (Pickernell *et al.*, 2016:40).

This research focuses on export promotion programmes in the emerging-market context of South Africa. Therefore, to assess the applicability of Pickernell and colleagues' (2016:37-40) findings (i.e. those relating to company size and age, as well as managers' age and levels of education or experience) to SMEs in emerging markets, three other empirical studies on the characteristics of exporting SMEs have been considered. These are a study comparing the characteristics of internationalising SMEs in South Africa to the BRICS countries (Lamprecht, 2011), a study on SME exports in the emerging Eastern European nation of Kosovo (Oberholzner, 2016) and a study on Malaysian SMEs' engagement in the international market (Mahajar, 2009). The review of these three studies yielded the following findings:

In terms of employee numbers, exporting SMEs in all the BRICS countries have a higher number of employees than their non-exporting counterparts (Lamprecht, 2011). In Kosovo, “[e]xporting SMEs are mostly small and medium-sized, i.e. they have more than 10 employees”, with exporting micro-enterprises being few and far between (Oberholzner, 2016:7). In Malaysia, exporting companies tend to employ more than 300 workers (Mahajar, 2009).

With regard to company age, exporting enterprises in India, Brazil and South Africa tend to be older than those in Russia and China. Yet in all domains, exporting SMEs are older than those who do not export (Lamprecht, 2011).

Pickernell and colleagues’ findings (2016:37-40) regarding the education and experience of the owners or managers of exporting SMEs also seem to apply to the BRICS context. The education variable is for example applicable to India and China, with the top managers of 91% of Indian and 66,7% of Chinese exporting SMEs holding degrees (Lamprecht, 2011). Also, in the emerging market of Malaysia, managers are “highly educated and experienced in their field” (Mahajar, 2009). At 35,2%, South Africa lags behind in respect of managers with degrees. This, however, needs to be considered in conjunction with the level of experience of the top management of South African SMEs involved in exporting, namely more than 20 years (Lamprecht, 2011).

In terms of the age of managers or owners, the Kosovo study (Oberholzner, 2016:7) reveals that top management of exporting SMEs are younger than those of their non-exporting counterparts. Yet this does not appear to be universally true, as research in Malaysia found that the majority were aged 40 and above (Mahajar, 2009).

The review of the three emerging-market studies also highlighted a few other characteristics attached to exporting SMEs, such as product and service variety and quality, and the use of professional and consulting services. The Kosovo study in particular concluded that an important characteristic of exporting SMEs was the greater emphasis placed on product and service quality in their business strategies (Oberholzner, 2016:8). This also holds true for Malaysia, where exporting SMEs across industries seem to provide a diverse offering of products and services, competitive pricing and superior-quality products, promptly respond to customer orders, and use sophisticated communication technologies (Mahajar, 2009). Exporting

SMEs in Kosovo also tend to use professional consulting and training services to a more regular and larger extent than their non-exporting peers (Oberholzner, 2016:8).

Therefore, what Pickernell and colleagues (2016) propose as the universal characteristics of exporting SMEs and their top management seems to hold true for exporting SMEs in emerging markets, including those in South Africa.

As the legislative review in Chapter 3 will show, South Africa's Industrial Policy and Action Plan also recognises this differentiation between companies that are equipped to export and those that are not. For this reason, government has revised its Global Exporter Passport Initiative so as to incorporate an export-readiness assessment (DTI, 2017). A more in-depth review of this aspect is presented under the legislative review, while the empirical phase of this study included an assessment as to how government's current selection criteria for SMEs participating in DSBD's outbound trade missions stack up against the characteristics of an export-ready SME.

## **2.5 Alternative mechanisms for promoting SME exports**

As outlined earlier, this study firstly evaluated the effectiveness of the current DSBD-initiated outbound trade missions for SMEs in creating public value, which was determined in terms of SMEs' growth in exports and development of export capacity. Based on the findings, the study then proceeded to assess the role of (in)appropriate selection criteria in identifying the SMEs participating in the outbound trade missions.

As an additional secondary objective, the research aimed to identify alternatives for SME trade promotion implemented internationally, which might be considered as a replacement for or supplement to DSBD's current programmes. In particular, the aim was to identify techniques that might be more cost-beneficial to DSBD and might better assist in reducing the barriers and complexities that SMEs face in entering the export market.

The literature offers a number of potential alternative techniques, six of which are highlighted below.

### **2.5.1 Subcontracting**

The Republic of Korea, Japan, Singapore and the Taiwan Province of China have introduced programmes that link their SMEs to larger firms as subcontractors. Subcontracting helps increase small enterprises' response capacity to make them

more attractive to larger firms as export suppliers. All these nations have strong coordinating agencies to provide the necessary support services to establish the required linkages: In the Republic of Korea, this is the Ministry of International Trade and Industries; in Taiwan, the Investment Development Bureau, and in Singapore, the Economic Development Board (ITC, 1999:4). In Japan, it is the Japan External Trade Organisation that provides such support (Yuzawa, 2018).

DSBD could consider these techniques as alternatives to its current approach, for two reasons: The first is the current dominance of the South African exporting scene by larger companies, comprising over 90% of the export market (Anand, Perrelli & Zhang, 2016:6). The second is the South African government's stated objective of growing SMEs' contribution to national exports (DTI, 2017:6, 2015:5).

### **2.5.2 Working with trading companies**

The literature also reveals examples of larger companies that have developed models that benefit SME development, including the facilitation of SME export marketing.

One form of such a model is where larger companies create their own trading companies to act as their exporting and importing arms, but then also offer their facilities and expertise to a large number of SMEs, acting as the smaller enterprises' marketing channel. Several large companies in Brazil, India and Turkey have for instance done so (ITC, 1999:5). In a variation on this theme, Japan has established so-called trading houses or sogo shoshas. However, unlike the in-house trading companies of large corporates referred to above, these trading houses are not themselves involved in production, but merely act as intermediaries between small enterprises and world markets (ITC, 1999:5).

### **2.5.3 Chambers abroad**

Incorporating elements of the model above, the German government makes grants available to German chambers of commerce abroad, who then assist in collecting information on foreign enterprises, and linking them with companies back home (Berg, 2015). In essence, the German Chambers Abroad Network utilises existing, well-established structures to promote exports and grow trade. A public-private partnership ensures that government spending goes much further than would have been the case if government had to carry this responsibility on its own. Both efficiency and quantum of activity is improved by putting the responsibility for trade opportunity identification

in the hands of the German chambers, which are spread across the globe and have a deeper understanding of local economies than could be expected from officials located in Berlin.

Similarly, a number of South African chambers of commerce exist abroad, including the South African Chamber of Commerce in the United Kingdom (South African Chamber of Commerce, n.d.) and the Southern Africa-German Chamber of Commerce and Industry (Southern Africa-German Chamber of Commerce and Industry, n.d.). Whilst the capacity of these chambers will on the one hand need to be tested, it could on the other hand be strengthened by a government programme that supports a model similar to that of the German chambers of commerce.

#### **2.5.4 Specialised export-sector-focused promotion activities**

Another German state initiative, called “specialised export-sector-focused promotion activities”, targets both sides of the trade equation – market needs as well as the supply side. The initiative is coordinated by a strategic committee (Berg, 2015).

Under this model, Berg (2015) explains, the trade promotion agency is fed with information from the market to establish market demand, including trade information, company information, product needs, and gaps in supply. This is done via a number of sources, including German embassies abroad, Germany’s own trade associations that have a presence abroad, as well as journalists. The information is then sent through to the strategic committee, who determines which course of action should be taken, by whom and in what way. Information seminars are also held locally in Germany to inform German businesses of the opportunities in the countries with whom they wish to trade, making it a more tailored, bespoke assistance scheme than most.

The next step is to arrange exploration visits to the country with whom a German business wishes to trade (Berg, 2015). Again, the focus is on companies’ individual needs. Therefore, delegations are limited to between four and eight members, and are not accompanied by any politicians or high-ranking officials, only functionaries tasked with managing the visits. German companies intending to supply the foreign country attend individual, prearranged visits at the premises of the companies to whom they are being introduced.

In South Africa too, such a technique could support the notion expressed in the INES, which “sees great value in selecting sectors for prioritisation which follow those of IPAP” (DTI, 2015a:14).

### **2.5.5 SME Service Centre of Wantran**

The SME Service Centre on Wantran, which is located in the Huangpu district of the city of Zhongshan, was set up by the local authority as a platform to assist their SMEs, including start-ups, in developing their businesses (Zhongshan Wanchung SME Service Centre, 2016).

The centre functions as a coordinator for the implementation of national and regional SME support programmes, provides consultation and training services to new business owners, and acts as an advisor regarding funding applications and credit evaluations. It also serves as a technical service platform for designing, inventing, testing, researching and developing products in collaboration with government. Moreover, it offers legal consultation and assistance, as well as mediation, and organises exhibitions (including permanent displays at the centre itself), product presentations and seminars (SME Service Centre of Wantran, 2016).

The unique innovation that the centre has introduced is its financing of an online business-to-business matchmaking facility. This affords their SMEs cost-effective access to the latest inventions and technologies in the field of internet marketing and online sales promotion. Specialists are made available to the SMEs in order to take full advantage of the value that the online facility offers.

### **2.5.6 Dongguan Commodity South Africa Display Centre/South Africa Commodity Dongguan Display Centre**

This is a new public-private platform with twin centres, one in the city of Dongguan in China displaying South African commodities, and the other in Durban, South Africa, displaying Dongguan commodities. The centres not only serve as permanent windows for showcasing commodities, but also as a platform for economic and trade exchanges as well as cooperation between the two sides (Dongguan Africa Industrial Investment Co. Ltd., 2017).

Much like the Zhongshan Wanchung SME Service Centre, the Dongguan initiative provides a one-stop export promotion service; a turnkey solution to companies that wish to export to or from China. It eliminates all the technical and management issues

that may impede SMEs entry into the export market, allowing them to focus on core manufacturing functions only. By outsourcing export-related research, promotion and administration to the centre, this approach also enables smaller enterprises to explore the export market, even though they may not currently display the characteristics of a typical export-ready SME.

The project is already operating as a private initiative in South Africa, but could, according to its management be switched to a public-private partnership as it is constituted in China.

As all the alternative export promotion techniques discussed above seem to place a high premium on being results-orientated and cost-effective, DSBD may wish to explore these approaches to add to their existing offering.

The central theme that emerges from these alternative techniques seems to be a greater emphasis on tangible outcomes in terms of generating exports and creating an ability to extend the scope and reach of export promotion programmes. On the one hand, there is a move away from a generally random approach towards a more focused approach, for example a sectorised or individualised one. On the other hand, government's export promotion programme is increasingly being outsourced to public-private partnerships or initiatives subsidised by the private sector. Grants, for example, are made to chambers of commerce to fund export promotion activities, or organisational and logistical support is provided to initiatives driven by the private sector.

Any potential future adoption of such approaches will need to be evaluated against existing legislation and policies pertaining to government's role in promoting exports for SMEs. This may require a policy review and legislative amendments. A survey of the existing legislative and policy provisions is undertaken in Chapter 3.

### **Chapter 3: A review of South African legislation and policy**

Although this research aimed to evaluate the effectiveness of the SME export promotion programmes of DSBD, it should be noted that the DSBD is a relatively new department that was established subsequent to the 2014 national elections. To date, not all the responsibilities that could be expected to eventually reside within DSBD have been transferred to its jurisdiction. Therefore, a number of activities that may eventually be driven by DSBD are still executed in divisions of the DTI, which previously oversaw small business development. One such activity is the export promotion programme, which TISA, a DTI division, executes for enterprises of all sizes, including SMEs (Jonathan, 2017).

Therefore, this legislative review starts by examining the export promotion programmes as mandated by legislation more broadly, and then narrows its focus to specific policies that have been designed precisely for the purposes of export promotion and are mainly administered by the DTI.

#### **3.1 The National Development Plan**

Export promotion for SMEs is broadly mandated by the National Development Plan (NDP) (RSA, 2015), which was published on 15 August 2012. The NDP was drafted by the National Planning Commission, which the South African president appointed to draft a vision and development plan for South Africa. Therefore, the inclusion of the boosting of exports as a critical action of the NDP elevates the importance of the public value attached thereto (RSA, 2015:34).

Chapter 3 of the NDP (RSA, 2015:109-158) outlines objectives and actions relating to the economy and employment. These include the objective of growing exports (measured by volume) by 6% per annum up to 2030, and non-traditional exports by 10% per annum. In doing so, the plan recognises that “developing country demand has been at the heart of the recovery in global trade”, and directs the country to “shift its focus to opportunities on the rest of the continent and in other developing countries” (RSA, 2015:64).

#### **3.2 The Industrial Policy Action Plan**

The Industrial Policy Action Plan (IPAP) (DTI, 2017) represents government’s “overall policy and plans to address the key challenges of economic and industrial growth and race-based poverty, inequality and unemployment”. It is guided by the NDP and

aligned with the Medium-Term Expenditure Framework (MTEF) and the Medium-Term Strategic Framework (MTSF) (DTI, 2017).

Firmly embedded in IPAP is the Integrated National Export Strategy (INES), which sets out the mandate to promote the export of value-added goods and services in the IPAP priority sectors. Under INES, IPAP directs TISA to develop export development and promotion support packages for the country's enterprises, as well as a services export strategy aimed at assisting these enterprises to integrate with regional and global supply chains.

TISA is also expected to continue to develop a pool of export-ready companies under the National Exporter Development Programme (NEDP) (DTI, 2017:63).

Moreover, IPAP articulates the significant need to improve access to alternative avenues of finance for all exporters, including SMEs. Consequently, it authorises government programmes and activities that promote SME exports and develop SMEs' export capacity (DTI, 2017:63).

### **3.3 National Small Business Act**

DSBD, although still in its infancy, is conferred legislative powers to promote SME exports through the National Small Business Amendment Act 29 of 2004 (RSA, 2004). Section 9 of the act establishes the Small Enterprise Development Agency (SEDA), which has as one of its objectives to "strengthen the capacity of small enterprises to compete successfully domestically and internationally" (RSA, 2004, s 9A(c)(ii)). Section 10(1)(c)(v) of the act then goes on to stipulate the functions of SEDA, which include supporting programmes to "facilitate international and national market access for products and services of small enterprises".

The operative word in this regard is "facilitate". Whilst DSBD, through SEDA and its own initiatives, may facilitate international competitiveness and access, the export promotion assistance is funded and administered by TISA. The participation of South African enterprises, including SMEs, in national expo pavilions and trade missions is funded by the Export Marketing and Investment Assistance Scheme (EMIA), which is coordinated by TISA (Jonathan, 2017).

### **3.4 The Integrated National Export Strategy**

Along with IPAP, the Integrated National Export Strategy (INES) (DTI, 2015a) drives the trade promotion activities undertaken by the DTI (Jonathan, 2017).

INES, which was finalised in the 2015/16 financial year following a review of the 2006 strategy, has four main aims. It firstly aims to improve the export-enabling environment and the country's international competitiveness. Secondly, it seeks to increase demand for South African goods and services by prioritising, diversifying and creating access to markets. This study, however, is particularly concerned with the third and fourth objectives. In the third instance, INES wants to develop exporters by increasing their export capacity and strengthening their performance through the National Exporter Development Programme (NEDP) (DTI, 2015a:15-16). Fourthly, it aims to strengthen the export promotion mechanism by enhancing the country's value proposition (DTI, 2015a:16-17).

#### **3.4.1 The third objective of INES: increasing export capacity and strengthening exporter performance through the NEDP**

The NEDP aims to expand the country's exporter base and increase exports in general. It is especially focused on value-adding products and services that contribute to employment and the green economy. The DTI maintains that the "NEDP offers an integrated approach to developing and educating both exporters and potential exporters", encouraging new exporters' entry into the domestic and international market against the backdrop of improving industrial capacity (DTI, 2015a:15).

The NEDP provides for "a series of targeted interventions" intended to "develop and migrate prospective exporters to become effective global exporters" (DTI, 2015a:15). Its intention is to monitor the development of exporters as they progress through phased interventions, ensure the establishment of new global exporters, and support them in entering international markets (DTI, 2015a:15). The NEDP executes this through the Global Exporter Passport Initiative, which accepts the "principle that companies need different types of services and interventions at different stages of their export development" (DTI, 2015a:15-16).

The initiative aims to improve the export-readiness of enterprises as they progress from entrepreneurs to international traders through a five-phased approach and accredited training. A phase-1 enterprise would typically be looking for opportunities

to further develop the business, which could include entry into the export market. A phase-2 enterprise would normally have an idea of what exporting entails, but often lacks the skills to export. A phase-3 enterprise would be export-ready, but normally requires assistance to develop an export marketing plan. A phase-4 enterprise would be export-ready as well as able to market its products, but in most instances needs implementation assistance to process its initial orders. Finally, a phase-5 enterprise would be well-versed in exporting, but normally needs to “further penetrate markets, develop new markets, or develop new products” (DTI, 2015a:15-16).

The five-phased approach suggested in INES correlates closely with the three phases suggested by Seringhaus and Rossen (in Diamantopoulos, Schlegelmilch & Tse, 1993:7-8) elaborated on in the previous chapter, namely creating awareness, understanding the enterprise’s needs in relation to exporting, and introducing an enterprise’s products to international markets.

#### **3.4.2 The fourth objective of INES: strengthening the export promotion mechanisms through enhancing South Africa’s value proposition**

This objective entails activities to promote South African exports, the achievement of the aims of the Strategic Export Promotion Plan, and the operating of EMIA (DTI, 2015a:16-17).

INES confirms the discovery made in the literature review, namely that SMEs make up only a small percentage of South Africa’s exports, stating that 98% of the country’s exports are generated by the top 25% of manufacturing exporters, and that the top 1% of manufacturing exporters account for just under 80% of national exports. Therefore, INES suggests that TISA should embark on structured engagements with the top 50 manufacturing exporters to determine the enterprises’ productive capacity and target markets (DTI, 2015a:16). It also commits TISA to achieving the objective of the Strategic Export Promotion Plan, namely “to enhance export volume (export growth) and grow export value (move up the value chain)” (DTI, 2015a:16-17). These efforts too will focus on particularly the top 50 to 100 exporters.

The final component of this strategic pillar entails EMIA, which emphasises group missions and, once again, support for the top 50 to 100 exporters, particularly those in the manufacturing sector (DTI, 2015a:17).

INES seems to place considerable focus on aiding bigger exporters. What the research would need to consider is how this fits with DSBD's priority to assist SMEs, as well as the cohesion between the priorities of TISA – a unit of the DTI – and those of IPAP and DSBD. Then again, INES also recommends that TISA and the South African Revenue Service (SARS) revisit the Income Tax Act to incentivise established exporters to participate in group missions, and particularly in the national pavilions, by enabling them to claim back their marketing costs. This, INES suggests, will allow the EMIA incentive to focus on new exporters (DTI, 2015a:17), which could arguably include reprioritising efforts aimed at supporting SMEs.

In addition, SMEs are clearly listed as “eligible enterprises” for receiving the benefits of EMIA (DTI, n.d.(b)). The current benefits available to these “eligible enterprises” are provided under the categories of individual exhibition participation, primary market research and foreign direct investment, as well as individual inward missions (DTI, n.d.(b)). Individual exhibition participation typically includes the transportation of samples, rental of exhibition space, construction of stands, interpreting fees, internet connections, telephone installations, a subsistence allowance per day, return economy-class airfare, and exhibition fees up to a maximum of R45 000. Under primary market research and foreign direct investment (FDI), exporters are compensated for costs incurred recruiting new FDI for South Africa by personally visiting potential investors in foreign countries. Compensation constitutes return economy-class airfare, a subsistence allowance per day, the transportation of samples, and marketing material. Finally, for individual inward missions, assistance is provided to South African entities to organise a visit by an inward buying investor to either conclude an export order or attract FDI. Benefits in this regard include registration of a patent in a foreign market (50% of the additional costs, capped at R100 000 per annum), return economy-class airfare, a subsistence allowance per day, as well as rental of exhibition space (DTI, n.d.(b)).

## **Chapter 4: Research design and methodology**

### **4.1 Introduction**

The primary intention of this study was to determine whether DSBD's facilitation of SME participation in international trade exhibitions created sufficient public value. The public value was determined by ascertaining whether export growth had been registered by participating SMEs, and whether the SMEs developed export capacity subsequent to attending TISA-organised international trade exhibitions. The assessment was into the efficacy of the DSBD export-promotion programme only and no comparative performance analysis was done between enterprises that received the DSBD intervention and enterprises that did not.

A secondary objective of the research was to evaluate the role of DSBD's selection criteria in succeeding/failing to achieve the desired public value and benefit. To this end, as specified in the previous chapters, the characteristics of the SMEs that had participated in trade exhibitions through DSBD's facilitation were compared to the characteristics of export-ready SMEs proposed by Pickernell and colleagues (2016:37-40). Also, part of the secondary study was a search for alternative export promotion techniques that DSBD might wish to consider to supplement or perhaps replace current practices in order to create greater public value.

This chapter outlines the research design and instruments deployed to gather the necessary data, the reasoning behind the choices of data collected, and how the data was analysed to yield outcomes that would allow for sound findings.

### **4.2 Selecting the SME enterprises for interrogation**

The subjects of this study were SMEs that had participated in DSBD-facilitated trade exhibitions abroad. The study covered a selection of four DSBD-sponsored missions, which were selected from the national pavilions organised at international trade exhibitions over the period 2014 to 2016. This period was selected for two reasons: Firstly, 2014 marked DSBD's first year as newly created state department. Secondly, to enable a credible determination as to whether the subject SMEs had recorded export growth and developed export capacity subsequent to their participation, at least one gap year was required between the period under review and the year of this study. This was to allow for a post-participation period in respect of which subsequent growth

and capacity-building could be measured. As this study was conducted at the beginning of 2018, missions undertaken during 2017 would not have provided a sufficient lapse in time to generate growth or develop capacity.

In securing information about missions undertaken over the study period, TISA – a division of the DTI that serves as implementing agent for DSBD in arranging the overseas national pavilions in which the SMEs participate – was approached. A full list of all national pavilions was obtained. This list reflected 83 national pavilions: 27 in the 2014/15 financial year (DTI, n.d.(d)), 28 in the 2015/16 financial year (DTI, n.d.(e)) and 28 in the 2016/17 financial year (DTI, n.d. (f)). As this study focused on small to micro-enterprises, the nature and composition of participating enterprises was considered to narrow down the number of national pavilions from which four could be selected. This required judgement-orientated evaluation based on two central questions as proposed by Babbie and Mouton (2017:337). The first was whether the national exhibitions accommodated the intended target group, namely small to micro-enterprises. The second was whether the intended beneficiaries received the intervention.

On completing the narrowing-down exercise, four national pavilions were identified through purposive selection, based on personal judgement and the objectives of the study. This sampling method is generally used for studying “a sub-set of a larger population in which many members of the sub-set are easily identified, but enumeration of all of them would be nearly impossible” (Babbie & Mouton, 2017:166). In this instance, the sub-set comprised those national pavilions identified during the narrowing-down process. Given time and capacity constraints, it was decided that four such missions needed to be selected from the sub-set.

What then remained in the enterprise selection process was the identification of specific enterprises that had participated in the TISA-organised national pavilions. Five enterprises per identified mission were selected for interrogation, which resulted in an assessment of 20 enterprises.

As foreseen during the research methodology design phase, it was not possible to interrogate all SMEs that had participated in the four selected national pavilions. Therefore, probability sampling – in particular systematic sampling – was applied to select the five subject enterprises per trade exhibition. To this end, the formula  $k=N/5$  was used, where “k” represents the interval size, “N” the total number of SMEs in a

trade mission, and “5” the sample size per mission. The first enterprise selected (per mission) was randomly chosen, followed by every  $k$ th unit (Trochim, 2006).

In this way, a list of enterprises to be assessed was compiled. It was however foreseen that not all of the enterprises identified would necessarily be contactable. Some might have been dissolved, might not have been contactable, or might simply have declined participation in the research. Therefore, a strategy was required to replace such enterprises with alternative ones, without distorting the selection based on probability sampling. The replacement technique applied was to simply select the next available enterprise following the particular  $k^{\text{th}}$  unit, and if that enterprise followed the next  $k^{\text{th}}$  unit selected. Similarly, should a selected enterprise turn out not to be an SME, the enterprise would be substituted on the same basis outlined above.

#### **4.3 Identifying data requirements and measuring performance on export growth, export capacity and export-readiness selection criteria**

With the SMEs selected, the interrogation began. The first task was to conceptualise the data needed to answer the research questions, as well as to consider how the data would be collected.

As mentioned in Chapter 1, the study required three measurements. The first was whether the SMEs that had participated in the DSBD-facilitated trade exhibitions abroad had subsequently registered growth in export turnover. The second measurement was to determine whether the particular SMEs had further developed their export capacity since participating in the trade exhibitions. The third measurement related to the role of DSBD’s export-readiness selection criteria in the success or failure of the outbound trade missions.

The data was collected by means of a questionnaire. A breakdown of the specifics of the questionnaire follows in section 4.6.1. However, the general reasoning behind the questions included in the questionnaire and the chosen methods of analysis is outlined in the sections below, for each of the three measurements mentioned above.

### 4.3.1 Measurement 1 – SME export growth

#### 4.3.1.1 Conceptualising the research design and data requirements

In conceptualising the information that was required, and how performance – export growth – had to be measured, it became clear that it would not suffice to simply determine the SMEs' exports following their participation in the DSBD-initiated mission. Since the objective was to determine the public value derived from DSBD's efforts, questions for this measurement needed to be structured so as to also record any subsequent export sales by the enterprises that could be traced back to their participation in the DSBD-organised trade exhibition, as well as additional export sales that had materialised as a result of the enterprises' own initiative and efforts.

In collecting quantitative data on export sales that had resulted from DSBD's facilitation, the enterprises were probed on their sales recorded during the trade exhibition itself, from orders taken at the trade exhibition, and from leads obtained at the trade exhibition. All other exports were assumed to have been as a result of the enterprises' own initiative and efforts. In this regard, the following questions were put to the participants:

<b>Questions relating to the enterprises' export sales</b>	
Q1:	What was the value of sales made at the trade exhibition in which the enterprise participated?
Q2:	What was the value of sales generated from orders secured at the trade exhibition in which the enterprise participated? (Including the value of subsequent repeat orders from the same customers)
Q3:	What was the value of sales generated from leads obtained at the trade exhibition in which the enterprise participated? (Including the value of subsequent repeat orders from the same customers)
Q4:	What was the total value of export sales generated by the enterprise over the period since the trade exhibition to end 2017?
Q5:	Calculation of export sales due to own initiative and efforts:
$Q4 - \sum(Q1 : Q3)$ , where Q stands for question	

(Source: Author, 2018)

The determination of the public value derived from DSBD's expenditure on the enterprises' participation in the trade exhibitions was made based purely on the value reflected in  $\sum(Q1 : Q3)$ . The remaining exports sales could not be ascribed to DSBD's efforts, but to those of the enterprises themselves.

#### 4.3.1.2 Conceptualising the data analysis tools

Yet it was not the total value of exports generated by all participating SMEs that pointed to success, but rather the number of SMEs that successfully entered the export market. Therefore, the unit of analysis was the number of participating SMEs, and the variable was the export growth registered per SME.

To enable this analysis, an eight-column table was designed, listing the 20 participating companies. The first column listed the enterprises, followed by three columns (column 2 to 4) to be populated with data extracted from the questionnaires (Q1, 2 & 3 in section 4.3.1.1). Column 5 was to be populated with the fifth set of data, namely the value of DSBD-facilitated export growth as represented by the formula  $\Sigma(Q1:Q3)$ .

Column 6 was populated with the average cost to facilitate the SME's participation in the international mission. This was to be determined by taking TISA's full cost to organise the specific mission and dividing it by the number of enterprises that had constituted the mission. With regard to export growth, public value would only be deemed to have been added where the value of exports of the particular SME exceeded the average cost per enterprise for the specific mission. This was done to account for the outflow of revenue required by TISA to host the mission abroad. Put differently, therefore, the initial foreign sales income was to be offset against the costs incurred by TISA to host the SME abroad.

Column 7 was intended to reflect the surplus/deficit between exports recorded and the average cost per mission. Column 8 was to be populated with the relevant code, being either 1, representing positive export sales as recorded in column 7, or 0, representing no exports or a deficit as recorded in column 7.

The aforementioned is illustrated in Table 4.1 below, with mere illustrative figures.

*Table 4.1: Table designed to analyse public value added as represented by export growth due to DSBD efforts*

Enterprise	Q1	Q2	Q3	Sum (Q1-Q3)	Average cost	Surplus/deficit	Code
1	100	100	100	300	150	150	1
2	100	50	50	200	150	50	1

3-18	...	...	...	1 200	2 400	1 200	<b>8<sup>1</sup></b>
19	0	0	0	0	150	(150)	0
20	100	25	25	150	150	0	0
Total number of enterprises registering export growth due to DSBD efforts							10

(Source: Author, 2018)

Note 1: Eight of the sixteen enterprises recorded a surplus

Since the research aimed to establish whether public value was attained through DSBD's export promotion programme for SMEs, the intrinsic value, merit and worth of the programme needed to be evaluated. According to Patton (in Babbie & Mouton, 2017:337-338), such an evaluation is judgement-oriented and "typically involves questions such as ... Was the programme successful? Did it achieve its objectives? Was it effective?". In such cases, Patton says, "the evaluator must come up with reliable and valid measures of outcomes". The measure that was devised in this instance was a Likert-type scale, reflecting the degree of programme success as reflected by the 20 companies interviewed (Table 4.2 below). Lending validity to the measure was the fact that response categories were unambiguous and segmented by means of equal intervals, rationally progressing from 'some value' to 'excellent value' (Babbie & Mouton, 2017:153-154). Clearly, had no enterprises registered export growth there would have been no value added. Whilst other methodologies could have been used, the chosen methodology was the most appropriate.

Table 4.2: Measure of success in creating public value through export growth

Number of enterprises registering export growth	Degree of success in creating public value
0	No value
1 – 4	Some value
5 – 8	Reasonable value
9 – 12	Significant value
13 – 16	Good value
17 – 20	Excellent value

(Source: Author, 2018)

But whilst Tables 4.1 and 4.2 above would give an indication as to the public value added due to the enterprises' participation in the national pavilions, it would not reflect the full export-growth position of the enterprise – in other words, the value of exports due to both DSBD and own efforts. To determine the export-growth position due to own efforts, the responses to questions 4 and 5 (repeated below for ease of reference) needed to be considered.

Q4:	What was the total value of export sales generated by the enterprise over the period since the trade exhibition to end 2017?
Q5:	Calculation of export sales due to own initiative and efforts:
	$Q4 - \sum(Q1:Q3)$ , where Q stands for question

(Source: Author, 2018)

For this purpose, an additional table (Table 4.3, containing illustrative figures below) was created. Column 1 again listed the subject enterprises. Column 2 was to be populated with the total export sales of the enterprise since participating in the national pavilion, and column 3 with the export sales generated as a consequence of the enterprises' participation in the national pavilions. Column 4 was intended to reflect export growth as a consequence of the enterprises' own efforts – being the difference between total export sales since participating in the national pavilion and sales as a direct consequence of participating in that national pavilion.

Where the enterprise had registered positive export growth due to own efforts, this was to be coded 1 in column 5, and where no additional export growth had been registered due to own efforts, it was to be coded 0.

Table 4.3: Table designed to analyse public value added as represented by export growth due to enterprises' own efforts

Enterprise	Q4	Sum (Q1-Q3)	Q5 (Own effort exports)	Code
1	300	300	0	0
2	400	200	200	1
3-20	2000	3000	1000	6 <sup>1</sup>
<b>Total number of enterprises registering export growth due to own efforts</b>				<b>7</b>

(Source: Author, 2018)

Note 1: Six of the eighteen enterprises registered export growth due to own efforts

A comparison of the results in Tables 4.1 and 4.3 would then enable a determination as to the subject enterprises' level of dependency on DSBD to create export markets for their products.

#### **4.3.2 Measurement 2 – development of SME export capacity**

##### **4.3.2.1 Conceptualising the research design and data requirements**

The purpose of measurement 2 was to determine whether the SMEs' participation in the DSBD trade exhibition had led to the enterprise developing an export capacity that it did not have prior to such participation. To this end, a determination needed to be made about what capabilities, skills and processes an enterprise had to master to be considered export-capacitated. In addition, it needed to be ascertained which of these capabilities, skills and processes the enterprises had possessed prior to participating in the trade exhibition and again at the end of 2017. Here too, a distinction needed to be drawn between the capabilities developed from own initiative and those developed as a result of DSBD's interventions.

From the literature study, it appeared that a number of factors, if present in an enterprise, would moderate against an enterprise entering the export market. These include the following:

- Domestic orientation, where an enterprise's focus is solely on the local market, which negates a strong export interest (Tan, Brewer & Liesch, 2014:19-22)
- Limited stimuli, such as an unfavourable location, resulting in an inability to access suitable information, limited contacts and social interactions (Tan, Brewer & Liesch, 2014:19-22)
- Inertia due to satisfaction with the enterprise's current performance, therefore not seeing any need for change (Tan, Brewer & Liesch, 2014:19-22)
- Inadequate financial resources, working capital and lack of access to investment finance (OECD, n.d.; Gunaratne, 2014:434)
- Lack of managerial, technical, negotiating and marketing skills (Gunaratne, 2014:434; Tan, Brewer & Liesch, 2014:19-22)
- Lack of managerial time (OECD, n.d. Gunaratne, 2014:434)
- Inability to access advanced technology (Gunaratne, 2014:434)
- Fear of intense competition (Narayanan, 2015:112-113; Gunaratne, 2014:434)

- Organisational and operations problems (Gunaratne, 2014:434)
- Lack of knowledge of potential markets (Gunaratne, 2014:434; Tan, Brewer & Liesch, 2014:19-22)
- Tariff and non-tariff barriers (Gunaratne, 2014:434)

What emerged from the literature was that not all enterprises are capable of entering the export market, nor should they attempt to do so until they have committed themselves to developing export capabilities. To assess an enterprise's export-readiness, Enterprise Ireland (n.d.) developed an "Export Assistance" checklist tool that sets out four areas for development prior to entering the export market. This checklist was subsequently adapted to assess the export capacity of the 20 enterprises studied in this research (Figure 4.1). The checklist was designed to include a recording of the enterprise's export-readiness prior to attending the DSBD-facilitated international mission, as well as whether and how the position had changed subsequent to the visit.

## Checklist for testing an enterprise's export-readiness

<p><b>1. <u>Is the enterprise ready to export?</u></b></p> <ul style="list-style-type: none"> <li>&gt; Is the export product ready?</li> <li>&gt; Does the company have a value proposition?</li> <li>&gt; Who are the target customers?</li> <li>&gt; How will the enterprise enter the export market, and what partners will be needed?</li> <li>&gt; Who is the company's competitors and what competitive advantage does it have?</li> <li>&gt; Is the company's marketing and sales processes sufficient?</li> <li>&gt; Has the company got the financial resources to see it through?</li> <li>&gt; Can the company cover the costs of selling overseas?</li> <li>&gt; Has the company determined its pricing strategy?</li> <li>&gt; How will the company manage risk and protect against not getting paid?</li> </ul>	<p><b>2. <u>Has the enterprise done its research?</u></b></p> <ul style="list-style-type: none"> <li>&gt; Has the enterprise researched the market thoroughly?</li> <li>&gt; Has the company identified market opportunities?</li> <li>&gt; What cultural and language issues are relevant?</li> <li>&gt; What legal issues should be considered?</li> <li>&gt; Which export market should the company target first?</li> <li>&gt; What export duties, regulations and transportation issues apply to the company's chosen market?</li> <li>&gt; Has the company visited the market?</li> </ul>
<p><b>3. <u>Has the company the capability?</u></b></p> <ul style="list-style-type: none"> <li>&gt; Has the company sufficient internal capacity to deal with the increased workload?</li> <li>&gt; Does the company have sufficient capacity for increased production?</li> <li>&gt; Is the company competitive on costs?</li> <li>&gt; Does the company own the technology and are brands and intellectual property protected?</li> <li>&gt; How efficient are the company's processes and operations?</li> <li>&gt; Is the company managing innovation as a strategic business process?</li> <li>&gt; Does the company have a website ready for export sales?</li> <li>&gt; Does the company have the right partners, agents or distributors on board?</li> </ul>	<p><b>4. <u>Does the enterprise have an export plan?</u></b></p> <ul style="list-style-type: none"> <li>&gt; Does the plan assess international markets?</li> <li>&gt; Does the plan determine the potential for the enterprise's product or service?</li> <li>&gt; Does the plan ensure that the financial and other resources are in place to exploit the opportunities?</li> <li>&gt; Does the plan clearly communicate the enterprise's goals to its stakeholders?</li> <li>&gt; Is the plan ready to present as a business plan to funders?</li> </ul>

Figure 4.1: Checklist for testing an enterprise's export-readiness: an adaptation of Enterprise Ireland's "Steps to Exporting" (Source: Enterprise Ireland, 2018)

#### 4.3.2.2 Conceptualising the data analysis tools

The essence of this measurement was to determine whether the DSBD-initiated SME participation in trade exhibitions abroad had created enthusiasm amongst the enterprises to pursue international markets. The point of departure of this analysis was that public value could not be added to an enterprise that already had the particular capabilities. Public value would only be deemed to have been added if additional capability was added to what the enterprise had displayed prior to the DSBD intervention.

Therefore, the data analysis aimed to measure progress in terms of the development of export capacity subsequent to the DSBD-facilitated missions. The analysis was also designed to determine whether such development was a result of DSBD follow-up work or the enterprises' own efforts.

To this end, an eight-column table was designed, listing the 20 interviewed companies (see Table 4.5 below, containing mere illustrative figures). The first column listed the enterprises. The second column was to be populated with the number of export capabilities that the enterprises had possessed prior to participating in the DSBD-facilitated mission. This number would be the cumulative total derived from the 30 questions contained in the checklist above (see Table 4.4). If the enterprise had no export capability prior to the mission, its cumulative total would be 0, and if it had full export capability, it would score the maximum of 30. Column 3 was similar to column 2, although instead of reflecting pre-mission capability, Column 3 was to be populated with the cumulative total in respect of the post-mission position.

Column 4 was intended to reflect the improved position post-mission through simple deduction, namely by subtracting the number reflected in column 2 from the number reflected in column 3. Column 5 would contain the code to reflect whether public value had been added, with 1 equalling 'yes' and 0 equalling 'no'.

The remaining three columns were designed to reflect whether any improved position could be ascribed to the efforts of DSBD or the enterprises themselves. Column 6 was to be populated with 1 for 'yes' (DSBD had done follow-up work aimed at developing export capacity with the enterprise subsequent to the mission) and 0 for 'no' (DSBD had not done such follow-up work). Should column 6 reflect a score of 1, and column 5 point to an improved position, this would also be reflected in column 7. Similarly,

should column 6 reflect a score of 0, column 7 would also reflect 0. Column 8 was designed to reflect the opposite of column 7, namely the number of enterprises that had developed export capacity through own initiative and efforts. Should column 7 reflect a score of 1, column 8 would reflect 0, and vice versa. However, should there have been no improvement or regression, 0 would be reflected in both columns 7 and 8.

Table 4.4: Calculation of pre-mission and post-mission export capabilities score

Questions	Pre-mission position	Post-mission position	Improved position post-mission
	1 = yes, 0 = no		
Q1: Is the export product ready?	1	1	0
Q2: Does the company have a value proposition?	0	1	1
Q3 – 28	10	17	7
Q29: Does the plan clearly communicate the enterprise's goals to its stakeholders?	1	1	0
Q30: Is the plan ready to present as a business plan to funders?	0	0	0
Score to be transferred to the analysis table	12	20	8

(Source: Author, 2018)

Table 4.5: Table designed to analyse public value added with regard to export capacity development

Enterprise	Pre-mission score	Post-mission score	Improved position	Public value added Y=1, 0=N	DSBD follow-up Y=1, 0=N	DSBD effort	Enterprise effort
1	12	20	8	1	1	1	0
2	0	15	15	1	0	0	1
3 – 18 <sup>1</sup>	...	...	...	10	5	5	5
19	15	15	0	0	0	0	0
20	0	10	10	1	0	0	1
<b>Number of enterprises with public value added</b>				13	n/a	6	7
<b>Column</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>

(Source: Author, 2018)

Note 1: Enterprises individually listed in the analysis done in Chapter 5

For this analysis too, a Likert-type scale was developed to reflect the degree of programme success in terms of public value added in relation to export capacity development (as witnessed in the 20 companies interviewed). Again, the measure was lent validity through its segmentation by means of equal intervals. The scale (illustrated in Table 4.6 below) also shows rational progression from 'no value' to 'exceptional value'.

Table 4.6: Measure of success in creating public value through export capacity development

Enterprises registering improved export capacity	Degree of success in creating public value
0	No value
1 – 5	Reasonable value
6 – 10	Significant value
11 – 15	Good value
16 – 20	Excellent value

(Source: Author, 2018)

### 4.3.3 Measurement 3 – assessing DSBD’s export-readiness selection criteria

#### 4.3.3.1 Conceptualising the research design and data requirements

Measurement 3 aimed to do a double-edged assessment of the validity of DSBD’s selection criteria. First, it was to consider DSBD’s selection criteria policy. Secondly, the aim was to assess the characteristics of the SMEs that had participated in the DSBD exhibitions against the characteristics of exporting SMEs proposed by Pickernell and colleagues (2016:37-40) (hereafter “the Pickernell characteristics”). This would then reveal whether the Department’s selection criteria could be considered adequate compared to international best practice, and what effect the Department’s selection criteria had on the success or failure of the SMEs that had participated in the international trade exhibitions.

However, before settling on the Pickernell characteristics as the ‘international gold standard’ against which the participating SMEs were to be evaluated, support needed to be canvassed from the literature to validate the choice of these characteristics as a best-practice benchmark. A further literature review was therefore undertaken to establish whether the Pickernell characteristics indeed enjoyed broad support. The findings of this further literature search are described below for each of the eight characteristics identified by Pickernell and his fellow researchers:

- **Pickernell characteristic 1: Enterprises in the manufacturing sector are more likely to export than those in other sectors.**

Support for this was found in a Canadian government research paper on the distinguishing features of SME exporters compared to non-exporters, which established that it was “SMEs operating in the manufacturing and knowledge-based sectors that export” (Seens, 2015:2,8). InterTradeIreland (2013:21) also found that companies in the services sector were less likely to export than companies in the manufacturing sector. This was echoed by the Industrial Development Corporation (IDC) (2013:17), who confirmed that manufactured goods “claimed a larger share of the merchandise export market”.

- **Pickernell characteristic 2: Larger SMEs are more likely to export, whilst micro-sized firms are less likely to be involved in international markets.**

The literature offered considerable support for this characteristic. Seens (2015:2,11) found that “it is still the larger SMEs ... that export the most”, while InterTradelreland (2013:21) discovered that companies with more than 50 employees were more likely to have cross-border sales than those with a staff complement of fewer than ten. According to Revindo (2017:154), “SMEs are less able to take advantage of foreign market opportunities than larger enterprises”. The Minority Business Development Agency also concluded that minority-owned firms that exported “were larger than their non-exporting minority-owned counterparts in terms of receipt size and employment” (Freeman, 2015:11).

In their research, Nakos, Brouthers & Brouthers (1998:23-47) found support for their hypothesis that “larger firms would be more successful internationally than smaller firms”, as did Van der Walt in his study, which established that exporters had a “propensity to higher annual turnover” and employed more people (2007:63-65). Finally, in developing their “Export Readiness Model”, Rosnan and colleagues (2015:1961) pointed to the “Revised Uppsala Model”, which concluded that international marketing behaviour was largely affected by larger partners in a network.

- **Pickernell characteristic 3: An export enterprise’s age partly determines its export readiness.**

A range of authors support Pickernell and colleagues’ notion that export enterprises tend to be older than ten years. Seens’s data (2015:2,11-12) revealed that older SMEs had a “greater propensity to export” than younger ones. Nakos, Brouthers and Brouthers (1998:23-47) found only partial support for their hypothesis that “younger firms would perform better than older more established firms”, while Revindo (2017:92) established that the exporters in his study had on average been operating longer than their non-exporting counterparts. In addition, Van der Walt (2007:63) suggests that there is “a clear correlation between [higher] company age and the propensity to export”. Almost all exporters he surveyed were well established.

- **Pickernell characteristic 4: Export-ready SMEs extensively use technology and websites.**

Both Seens (2015:20) and Rosnan and colleagues (2015:1962) agree, with the former stating that “a greater percentage of exporters ... invest in ICTs [information and communications technology]”, while the latter identified an enterprise’s technological advancement as a factor and stimulus in its export and internationalisation behaviour.

In a similar vein, a McKinsey Global Institute report, which had surveyed 4 800 SMEs in 12 countries to study the role of internet use in increasing productivity and competing in overseas markets, found that “SMEs utilizing the Internet for business functions grew at twice the rate of those that did not” (Meltzer, 2015:6). The United States International Trade Administration (2016:3,4) agrees, suggesting that for a company to “seek multiple benefits from exporting”, it needs exposure to technology, “selling internationally via your own website or third-party e-commerce site”.

- **Pickernell characteristic 5: The enterprise should have external network resources and draw on the advice from trade associations/networks.**

This characteristic also enjoys wide support. Revindo (2017:156,157) argues that “[n]etwork relationships play an important role in facilitating the internationalisation of SMEs”, citing examples such as business associates, government agencies and business chambers. Rosnan and colleagues (2015:1961), in turn, refer to the “potential for learning and for building trust” that network relationships offer. They proceed to say that “successful internationalization may well require the firm to leverage the skills and resources of other organizations”. This is further backed up by Chen (2017:169), who argues that “the networking and personal contacts that managers own from international experience can be used to identify new opportunities”. These contacts and networks, Chen (2017:169) argues, are valuable for obtaining business advice, securing assistance in foreign markets, and opening doors in markets where the enterprise has not ventured before.

InterTradeIreland (2013:9) also identifies a “[w]illingness to collaborate with others in developing exports” as a key characteristic of exporting SMEs, as does the

US International Trade Administration (2016:3), who suggests that a company wanting to export should seek “expanded customer networks”.

- **Pickernell characteristic 6, 7 and 8: Export-ready SME owners/managers are normally older (>45 years), possess a degree or higher qualification, and have gained previous international exposure and/or experience.**

With regard to owners’ age, Nakos, Brouthers and Brouthers (1998:23-47) find little support for their hypothesis that “younger managers would perform better internationally”. In their study of black-owned enterprises engaged in exporting, Ekanem and Mahone (1998:73) found that the “threshold age of those managers is between 35 and 54 years”. In addition, having established that 63,8% of exporter SME respondents in his study were older than 45, Revindo (2017:94,120) found that “age and work/business experience do matter”.

In terms of the level of education of the owner/manager of an enterprise and its readiness to enter the export market, Simpson and Kujawa (in Schlegelmilch & Ross, 1987:146) concluded in 1974 already that “a higher level of formal education leads to a more positive attitude to exporting”. This conclusion was reaffirmed in Schlegelmilch and Ross’s own research (1987:154), and also corroborated by Nakos, Brouthers and Brouthers (1998:23-47), who found support for their hypothesis that “firms with more educated managers would achieve better [export] performance”. This appears to still hold true today, as Chen (2017:170) in his more recent study pointed out that highly educated decision-makers tended to have a closer association with internationalisation, while Revindo’s research confirms that owners of SME export enterprises “have a higher formal education” (2017:158).

With regard to the owner/manager’s international experience, Schlegelmilch and Ross (1987:155) pointed to the importance of export managers “to become more familiar with overseas markets by gaining living/work experience in foreign environments”. In this respect also, Nakos, Brouthers and Brouthers (1998:23-47) found support for their hypothesis that “firms with managers that had international experience would have a better performance than firms without such managers. In addition, the position was corroborated by both Chen (2017:170) and InterTradelreland (2013:34): The former argues that “know-how formed by managers ... working abroad” allows a greater accumulation “of experiential

knowledge and competitiveness”, while the latter found that “experience is an important factor in how businesses develop or acquire the strategic attributes necessary to become a successful exporter”. Revindo (2017:158) too established that the owners of exporting SMEs had “more international exposure than the non-exporting SMEs’ owners”.

In summary, Figure 4.2 below provides a synopsis of the Pickernell characteristics of an export-ready enterprise, while Table 4.7 provides an outline of the support for those characteristics in the literature.

### Characteristics of an export-ready enterprise

Characteristic	Promoters of SME exports
<b>Enterprise</b>	
1. Sector	Older firms more likely to export if they are in manufacturing Younger firms more likely to export if in basic services
2. Size	Larger SMEs more likely to export, whilst micro-firms are less likely to be involved in international markets*
3. Age	Enterprises older than 10 years are more likely to export
<b>Owner/manager</b>	
4. Age	Owners/managers younger than 45 are less likely to export
5. Experience	Previous international exposure or experience is important
6. Owner/manager education	Owners/managers possessing a degree or higher are linked to exporting
<b>Resources</b>	
7. Technology & internet usage	Extensive use of technology & website
8. External network resources	Have received beneficial advice from trade associations/networks

Figure 4.2: Characteristics of an export-ready enterprise (Source: Pickernell, 2016)

Table 4.7: Research findings that support Pickernell and colleagues' characteristics of an export-ready SME

Characteristic	Authors
Manufacturing sector	Seens (2015:2,8); InterTradelreland (2013:21); Industrial Development Corporation (2013:17)
Larger SMEs	Seens (2015:2,11); InterTradelreland (2013:21); Revindo (2017:154); Freeman (1998:11); Nakos, Brouthers & Brouthers (1998:23-47); Van der Walt (2017:13-65); Rosnan <i>et al.</i> (2015:1961)
Older enterprises	Seens (2015:2, 11-12); Nakos, Brouthers & Brouthers (1998:23-47); Revindo (2017:92); Van der Walt (2017:63)
Wide use of technology/websites	Seens (2015:20); Rosnan <i>et al.</i> (2015:1962); Meltzer (2015:6); US International Trade Administration (2016:3)
Access to external networks	Revindo (2017:156-157); Rosnan <i>et al.</i> (2015:1961); Chen (2017:169); InterTradelreland (2013:9); US International Trade Administration (2016:3)
Older owner/manager	Nakos, Brouthers & Brouthers (1998:23-47); Ekanem & Mahone (1998:73); Revindo (2017:94, 120)
Owner/manager holding degree	Schlegelmilch & Ross (1987:146,154); Nakos, Brouthers & Brouthers (1998:23-47); Chen (2017:170); Revindo (2017:158)
Owner/manager has international experience	Schlegelmilch & Ross (1998:155); Nakos, Brouthers & Brouthers (1998:23-47); Chen (2017:170); InterTradelreland (2013:34); Revindo (2017:158)

The literature offers ample corroboration for the Pickernell characteristics of an export-ready SME. While it is acknowledged that some authors, such as Del Río Araújo and Neira (2006:211-214), did not agree with all aspects of the Pickernell characteristics, the overwhelming evidence found in the literature suggested that the characteristics could in fact be deemed a reliable measure against which the selected SMEs of this thesis could be evaluated.

Thus, should an analysis of the information relating to the participating SMEs point to a favourable match between DSBD's selection criteria and the Pickernell characteristics, this would establish the applicability of those characteristics in the South African setting. Equally, an assessment of the participating enterprises against the Pickernell characteristics would enable a finding as to the adequacy of DSBD's

selection process, as well as its role in the success or failure of DSBD's outbound missions.

### **Clarification of cut-off points**

Pickernell and colleagues used the European definition for an SME, namely an enterprise with fewer than 250 employees and a turnover of up to 50 million euros. For purposes of this research, the enterprises' turnover was classified in terms of the March 2015 cut-off points in Statistics SA's Quarterly Financial Survey. As the cut-off points differ between the economic sectors, Table 4.8 below shows the sectoral classifications and cut-off points used (BER, 2016:11-12). With regard to the classification of enterprises in terms of number of employees, the definition in the National Small Business Act of 2003 was used. Here too, the sectoral classifications and cut-off points differ for the various economic sectors, and are shown in Table 4.9 below (RSA, 2003:8-9).

*Table 4.8: Classification of enterprises by turnover*

<b>Economic sector</b>	<b>Medium &gt;Rm</b>	<b>Small &gt;Rm</b>	<b>Micro &gt;Rm</b>
Mining and quarrying	95,0	38,0	2,0
Manufacturing	123,5	47,5	2,0
Electricity, gas and water	123,5	48,5	2,0
Construction	57,0	28,5	2,0
Wholesale trade	304,0	57,0	2,0
Retail trade	180,5	42,5	2,0
Motor trade	180,5	42,5	2,0
Accommodation and catering	57,0	48,5	2,0
Transport	123,5	28,5	2,0
Real estate and business services	123,5	28,5	2,0
Community, social and personal	57,0	8,5	2,0

*(Source: BER, 2016)*

Table 4.9: Classification of enterprises by number of employees

Economic sector	Small	Very small	Micro
Mining and quarrying	50	20	5
Manufacturing	200	50	20
Electricity, gas and water	50	20	5
Construction	200	50	20
Wholesale trade, commercial agents and allied services	50	20	5
Retail, motor trade and repair services	50	20	5
Agriculture	50	10	5
Catering, accommodation and other trade	50	20	5
Transport, storage and communications	50	20	5
Finance and business services	50	20	5
Community, social and personal services	50	20	5

(Source: RSA, 2003)

To obtain the required information on the business characteristics of the enterprises selected for this study, the following questions were included in the questionnaire:

#### Questions relating to the characteristics of the enterprise

- Q1: In what sector does the enterprise operate? What products or services does the enterprise market abroad?
- Q2: What was the annual turnover in the last financial year?
- Q3: How many years has the enterprise actively been in operation?
- Q4: How old is the owner/general manager of the enterprise?
- Q5: Does the owner/manager have any experience in international trading? In exporting? How many years' experience?
- Q6: What is the highest level of education/highest qualification that the owner/general manager holds?
- Q7: Does the enterprise actively use and participate in modern technology? Does it include social media? Does the enterprise have a website? Is the website an active website? Does the website provide for e-trading? Is the website geared towards international trade as well?
- Q8: Has the owner/manager/senior staff of the enterprise been exposed to trade organisations that promote trade? Has this yielded knowledge about engaging in international trade? Is the owner/manager/senior staff exposed to networking organisations that offer opportunities relating to international trade?

(Source: Author, 2018)

#### 4.3.3.2 Conceptualising the data analysis tools

The objective of this analysis was to determine how the characteristics of the SMEs that had participated in the DSBD-facilitated export missions abroad measured up against the Pickernell characteristics (2016:37-40) of an export-ready SME. The comparative analysis also sought to establish how TISA's selection criteria compared with those of Pickernell.

The outcome of the analysis would enable three determinations: Firstly, it would show how closely TISA's selection criteria mirrored those proposed by Pickernell. Secondly, it would show to what extent SMEs that had participated in DSBD-facilitated trade missions abroad displayed the Pickernell characteristics. Finally, it would show whether TISA was adhering to its own selection criteria policies.

To this end, the data analysis process was designed to comprise the following five steps:

Step 1: Determining characteristics of subject SMEs: A nine-column table was designed (Table 4.10, containing illustrative figures). The first column listed the enterprises. The remaining eight columns were each devoted to one of the characteristics to be evaluated, namely sector, enterprise size, enterprise age, technology and internet use, access to external network resources, owner/manager age, owner/manager's international trade experience, and owner/manager's qualifications. The table was to be populated by inserting the relevant characteristics of the enterprises as gleaned from the interviews.

Table 4.10: Characteristics of subject SMEs

Enterprise name	Sector	Size	Age (in years)	Technology & internet use	External network	Age	Degreed	International trade experience
	Enterprise					Owner/manager		
1	Accommodation	Micro SME	3	Yes	Yes	25	No	No
2	Manufacturing	Small SME	9	Yes	Yes	40	Yes	No
3	Manufacturing	Micro SME	10	Yes	Yes	30	No	5 years
4	Retail	Small SME	15	No	Yes	35	No	No
5	Manufacturing	Larger SME	18	Yes	No	55	Yes	10 years

(Source: Author, 2018)

**Step 2: Assessing compatibility between SME characteristics and Pickernell characteristics:** In this step of the analysis, another nine-column table was designed (Table 4.11, containing illustrative figures). Once again, the first column contained a list of the enterprises. Here too, the remaining eight columns were allocated to each of the characteristics (e.g. size) to be evaluated, as above. Yet in this instance, each of the eight columns also contained the characteristic qualifier (e.g. number of employees) that Pickernell ascribed to export-ready SMEs. In this way, the characteristic qualifiers of the SMEs that had participated in the DSBD-facilitated trade missions could be compared with those of Pickernell. The table was to be populated with the relevant codes, where 1 indicated a fit with the Pickernell characteristics, and 0 no fit.

Table 4.11: Comparative analysis of subject SMEs and Pickernell qualifiers

Enterprise name	Sector	Size*	Age	Technology & internet use	External networks	Age	Degreed	International trade experience
	Manufacturing	Larger SME	>10 years	Yes	Yes	45	Yes	Yes
	Enterprise					Owner/manager		
1	0	0	0	1	0	0	0	0
2	1	0	0	1	1	0	1	0
3	1	0	1	1	0	0	0	1
4	0	0	1	0	1	0	0	0
5	1	1	1	1	1	1	1	1
<b>Totals</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>2</b>

(Source: Author, 2018)

**Step 3: Defining the fit:** Here, the objective was to determine to what extent the DSBD-sponsored SMEs' characteristics fitted with Pickernell's suggested characteristics of an export-ready SME.

For this purpose, a Likert-type scale was created (Table 4.12) to reflect the degree of compatibility. As with the previous measures designed for this study, this scale was lent validity by its segmentation in equal intervals, and its rational progression from 'no fit' to 'perfect fit'.

Table 4.12: Measure of degree to which subject SMEs fit characteristics of export-ready SMEs

Number of correlating SMEs	
1 – 4	No fit
5 – 8	Poor fit
9 – 12	Reasonable fit
13 – 16	Good fit
17 – 20	Perfect fit

(Source: Author, 2018)

Assume for a moment that the codes were to total up as indicated in the example below.

Enterprise name	Sector	Size*	Age	Technology & internet use	External networks	Age	Degreed	International trade experience
	Manufacturing	Larger SME	>10 years	Yes	Yes	45	Yes	Yes
	Enterprise					Owner/manager		
<b>Totals</b>	<b>12</b>	<b>5</b>	<b>12</b>	<b>16</b>	<b>12</b>	<b>5</b>	<b>8</b>	<b>8</b>

(Source: Author, 2018)

This would then have enabled the following evaluation:

Sector	Size*	Age	Technology & internet use	External networks	Age	Degreed	International trade experience
Enterprise					Owner/manager		
<b>Reasonable fit</b>	<b>Poor fit</b>	<b>Reasonable fit</b>	<b>Good fit</b>	<b>Reasonable fit</b>	<b>Poor fit</b>	<b>Reasonable fit</b>	<b>Reasonable fit</b>

(Source: Author, 2018)

Step 4: Ascertaining compatibility between TISA selection criteria and Pickernell characteristics: This step was aimed at performing a simple comparative analysis to determine the level of similarity between the selection criteria of TISA and the Pickernell characteristics. For this purpose, the tabulation shown in Table 4.13 was designed (here containing illustrative data).

Table 4.13: Comparative analysis of TISA's selection criteria against the Pickernell characteristics of an export-ready SME

	Enterprise					Owner / manager		
	Sector	Size*	Age	Technology & internet use	External networks	Age	Degreed	International trade experience
Pickernell	Manufacturing	Larger SME	> 10 years	Yes	Yes	45	Yes	Yes
TISA	Manufacturing	Larger SME	> 5 years	Yes	No	25	n/a	Yes

(Source: Author, 2018)

**Step 5: Assessing DSBD/TISA's adherence to own selection criteria:** Here, the aim was to determine how diligently TISA applied its own selection criteria policy. To this end, the SMEs' characteristics had to be compared to TISA's selection criteria, using the same coding key as determined in Table 4.12. The tabulation designed for this assessment is shown in Table 4.14 (containing mere illustrative data).

Table 4.14: Subject SME characteristics seen against TISA selection criteria

Enterprise name	TISA selection criteria							
	Sector	Size*	Age	Uses tech & internet	External networks	Age	Degreed	International trade experience
	Manufacturing	Larger SME	> 5 years	Yes	Yes	n/a	n/a	Yes
	Enterprise					Owner/manager		
1	0	0	0	1	0	0	0	0
2	1	0	1	1	1	0	1	0
3	1	0	1	1	0	0	0	1
4	0	0	1	0	1	0	0	0
5	1	1	1	1	1	1	1	1
<b>Totals</b>	<b>3</b>	<b>1</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>2</b>

(Source: Author, 2018)

#### **4.4 Identifying data requirements on potential alternative export promotion techniques**

In exploring the additional secondary research question, namely whether there are potential alternative export promotion techniques that may supplement or replace DSBD's current practices, the literature review pointed to six alternative mechanisms for promoting SME exports.

The first such mechanism is subcontracting, which links SMEs to larger firms as subcontractors. The literature suggested that this model was operational in Japan, the Republic of Korea, Singapore and Taiwan. Therefore, a visit was undertaken to Japan, facilitated by the Japan External Trade Organisation (Jetro). There, a number of structured and in-depth interviews were conducted with trading houses to ascertain the functioning of subcontracting, as well as the broader role and benefits of SMEs contracting trading houses – a second Japanese model explored – to manage their exports.

In addition, two German mechanisms were identified from the literature review. The first involved the German government making available grants to German chambers of commerce abroad, who then help collect information on foreign enterprises and link them with companies back home (Berg, 2015). The second German mechanism is an initiative called “specialised export-sector-focused promotion activities”. Targeting both sides of the trade equation – market needs and supply – this model is focused and specific. It caters to individual company needs, with limited delegations attending individual, prearranged visits at the premises of the companies to whom they are being introduced.

Finally, the literature review also revealed two alternative Chinese mechanisms: the SME Service Centre of Wantran and the Dongguan Commodity South Africa Display Centre/South Africa Commodity Dongguan Display Centre. The former is a platform set up by the local authority to assist their SMEs. In essence, it serves as a one-stop solution to SMEs, inter alia providing them with consultation and training, advice regarding funding and credit, technical services, and exhibitions (including permanent displays). It has also introduced a unique online business-to-business matchmaking facility, where specialists are made available to act on behalf of the enterprises, so that the enterprises can focus on their core business activity of manufacturing. The

second Chinese initiative involves a public-private platform with twin centres – one in the city of Dongguan, China, and the other in Durban, South Africa. The export-related research, promotion and administration is outsourced to the centres, enabling smaller enterprises to explore the export market, even though they may not currently display the characteristics of a typical export-ready SME.

As with exploring the Japanese models, in-situ visits were also undertaken to both Germany and China, where structured in-depth interviews were conducted to develop a comprehensive understanding of the functioning, financing and operation of the various mechanisms. This part of the research was informed by the guidelines of Babbie and Mouton (2017:279): The objects of study (the six mechanisms) were engaged in a detailed manner. A small number of cases were selected to be studied (six). An openness to multiple sources of data was maintained (multi-method approach), and flexible design features were used to allow for adaptations and changes to the study when and where necessary.

The research questions posed to the Japanese, German and Chinese interviewees had to highlight the principles guiding the study, while also securing an understanding of the context from which their respective mechanisms had arisen. To obtain all the data required, multiple interviews and observations were required. As anticipated by Yin (in Babbie and Mouton, 2017:282), it was necessary to call on a variety of informants to generate explanations and establish patterns in respect of each of the six alternative mechanisms.

The set of ten open-ended research questions (see below) were aimed at soliciting both the conceptual and contextual detail needed to build the case (Babbie & Mouton, 2017:282). Throughout the interview process, the probing specifically focused on obtaining information as to the applicability of the respective mechanisms in the South African context. The emphasis was on whether and how the alternative mechanisms could be applied to promote SME entry into the export market under local conditions, and whether the adoption of similar mechanisms would assist DSBD in enhancing the public-value proposition of its export programme initiatives.

**Ten open-ended questions used for the Japanese, German and Chinese interviewees**

- Q1: Explain where, who and why the model/mechanism was conceptualised.
- Q2: Is it a private, public or public-private sector initiative? What is the rationale for this positioning?
- Q3: Explain the workings of the model/mechanism.
- Q4: Explain the organisational structure of the model/mechanism.
- Q5: Run us through the operations – the typical start-to-finish sequence.
- Q6: What services does the model/mechanism provide?
- Q7: Explain how the model/mechanism is funded.
- Q8: Provide some examples of products promoted through the mechanisms, citing one that was successful and one that was not, and indicate the reasons for the success and failure respectively.
- Q9: Discuss the success ratio based on the number of products introduced into the system.
- Q10: What is the typical size of the enterprises that make use of the services provided by the model/mechanism?

*(Source: Author, 2018)*

## **4.5 Identifying other-source data requirements**

To determine the public value generated from DSBD expenditure on facilitating SME participation in international trade exhibitions and missions abroad, certain basic information had to be collected from TISA, DSBD's implementing agent.

### **4.5.1 Participating enterprises' data**

TISA provided a list of all outbound trade missions it had organised. The list contained the names of the participating enterprises, the names of the exhibitions/events attended, and the nature of the products promoted.

This information firstly enabled a classification of the missions to determine the most relevant in terms of catering to SMEs. The four missions eventually selected were from amongst those that had prioritised SME participation. Secondly, the information enabled the selection of five SME participants from each of the four chosen missions. This selection process was outlined in paragraph 4.2.

#### **4.5.2 TISA selection policy**

Since measurement 3 aimed to compare the export-readiness selection criteria of DSBD (through TISA) with the Pickernell criteria (see paragraph 4.3.3), the TISA selection policy was an indispensable component of the data requirements. Similarly, the research required a comparative analysis of the TISA selection criteria and the characteristics and export capabilities of the participating SMEs to determine to what extent TISA was adhering to its policy in this regard. To this end, an interview was conducted with the Chief Operating Officer of TISA to ascertain and interrogate their selection criteria policies.

#### **4.5.3 Financial expenditure relating to the export promotion missions**

Although not a crucial component of the research, a basic understanding of the relationship between the financial expenditure on the mission and the public-value outcomes in terms of SMEs' export growth and capacity-building was considered useful. For example, knowing how much had been spent on a particular SME and what return had been achieved in terms of that enterprise's export growth and export capacity development would enable conclusions to be drawn in terms of spending effectiveness. It could also help building the case for potentially including alternative export promotion mechanisms in the current DSBD offering. This information was provided by the DTI.

#### **4.6 Collecting the data: content and design of interview questionnaires**

A structured questionnaire and two interview guides were developed for this study.

The structured questionnaire aimed at acquiring the required data from the 20 sampled enterprises that had participated in the selected DSBD-facilitated trade exhibitions. The first interview guide was aimed at gaining a detailed understanding from the Japanese, German and Chinese institutions consulted on the alternative export promotion techniques. The second interview guide was used to probe TISA for purposes of understanding their selection criteria policy and the follow-up work required to empower the enterprises for export-market entry.

#### 4.6.1 Enterprise interview questionnaire

The questionnaire designed to solicit the required data from the 20 sampled enterprises was structured along the lines of the main research questions outlined in the earlier part of this thesis. A copy of the questionnaire is attached as Annexure A.

For purposes of the first half of the primary research question – assessing public value in terms of growing SME exports – data was gleaned through the questionnaire section “Export sales of enterprise” (Annexure A, section 3, page 3). This section obtained export sales values both at and as a consequence of the enterprises’ participation in the DSBD-facilitated mission. In addition, the value of own-effort export sales generated could be calculated through the formula explained in section 4.3.1.1 above. Since the questionnaire collected data for the period 2013 to 2017, this enabled a determination of the export sales trend of the enterprises subsequent to the DSBD interventions over the period 2014 to 2016.

Regarding the second half of the primary research question – assessing public value in terms of developing the enterprises’ export capabilities – the questionnaire section “Enterprise export-readiness status (export capabilities)” (Annexure A, sections 4.1-4.4, from page 4) contained a range of questions on each of the themes derived from Enterprise Ireland’s tool (as explained in section 4.3.2 above). These were “Is the enterprise ready to export?”, “Has the enterprise done its research?”, “Has the enterprise the capability?” and “Does the enterprise have an export plan?”. The enterprises’ capabilities prior and subsequent to the DSBD-facilitated missions were interrogated to ascertain their development trajectory. Likewise, through probing the DSBD/TISA follow-up work subsequent to the trade exhibition (Annexure A, section 4.5, page 7), a clear indication could be obtained as to whether any development could be ascribed to DSBD/TISA interventions.

To explore the secondary research question aimed at assessing DSBD’s export-readiness selection criteria, the questionnaire section “Characteristics of the enterprise” (Annexure A, section 5, page 8) was devoted to soliciting the information needed to compare the chosen SMEs’ characteristics with those suggested by Pickernell (2016:37-40). Therefore, questions related to the sector, size and age of the enterprise, its use of technology, and access to external resources and networks. In addition, it probed the SMEs on the age, qualifications and international trade

experience of the owner/manager of the enterprise. The end goal with collecting this data was to determine how those enterprises selected by DSBD to participate in the trade exhibition measured up against Pickernell and colleagues.

Since the information provided by the enterprises could be considered of a strategic and sensitive nature, ethical research considerations required that their data be treated confidentially. To ensure anonymity, no company name or identifying detail was linked to any of the completed questionnaires. Instead, each of the sampled companies were allocated a number between 1 and 20. The numbered enterprise pseudonym appeared in the top right-hand corner of the questionnaire and was carried through to each subsequent page. This ensured that should pages of the different enterprises' questionnaires become jumbled, the data integrity could be maintained. (More on ethical considerations follows in section 4.8 below.)

#### **4.6.2 Interview guide in relation to alternative export promotion techniques**

The structure of the questionnaire intended to guide the investigation into the six alternative export promotion techniques was outlined in paragraph 4.4 above, so need not be repeated here.

#### **4.6.3 TISA interview guide**

The interview guide used for the interaction with TISA's Chief Operating Officer aimed to obtain data on TISA's selection criteria policy and their follow-up work aimed at empowering the enterprises for export-market entry. As such, the guide contained only two questions: (i) What are TISA's selection criteria policies with regard to SMEs that participate in TISA-organised trade missions? (ii) What actions does TISA take to assist SMEs in developing their export capacity subsequent to their participation in the trade missions?

#### **4.7 Limitations**

While it is acknowledged that the research design did pose two particular limitations, neither were believed material enough to eventually affect the final adjudication of the DSBD programme's contribution to public value.

The first limitation was that the selection process might have missed a handful of exceptional performers. Yet, even so, it was argued that it would not distort the norm. The validity of the findings would remain sound.

Bearing in mind the view of Gumede (2000:9) that a selected range of niche products tend to outperform the trend, a second limitation was that those products might have been omitted from the sample. If so, the public-value performance might be marginally understated. Once again, however, it was argued that this would not have a material impact on the findings. In any event, should a negative finding prompt DSBD to accommodate alternative export promotion techniques, it would be beneficial for all, including the niche-product enterprises.

#### **4.8 Ethical considerations**

Data of a confidential nature was collected from a number of representatives from the 20 sampled enterprises that had participated in DSBD-facilitated trade exhibitions abroad. This included enterprise financial data, their strategies and their organisational and procedural designs. In addition, TISA provided the contact information of the participating SMEs, as well as financial data relating to the cost of the international missions.

Accordingly, after having obtained internal ethics approval from Stellenbosch University, an informed consent process was followed, which entailed prospective participants giving their voluntary and informed consent before being interviewed (Annexure A, page 1). Similarly, written permission was sought and received from TISA.

Even though it is maintained that the risk classification was low, the potential of risk of harm to the SMEs interviewed was limited through the use of participant coding (pseudonyms), thereby maintaining confidentiality and anonymity.

#### **4.9 Conclusion**

This chapter has outlined the research design, the methodology used to collect and analyse the data, and the rationale behind the choice of questions and data collection tools.

In considering the primary research question, the research design required two measurements. The first was to establish whether the SMEs had registered export growth subsequent to their participation in DSBD trade missions, and the second to ascertain whether the SMEs had developed export capacity subsequent to the mission.

For the first measurement, it was decided that the collection of quantitative export sales data from before and after the DSBD intervention, and differentiation between export sales due to DSBD and enterprises' own efforts, would show whether the intervention had indeed contributed to the enterprises' export growth and, thus, to public value. The tabulation of the export growth results for all the sampled enterprises would also enable the overall success of the programme to be assessed, using a scale from 'no value' to 'excellent value'.

For the second measurement, a checklist was opted for to test the enterprises' export-readiness before and after the DSBD intervention to determine the degree of public value added in that respect. Again, the tabulation of the export capacity results for all the sampled enterprises would enable the overall success of the programme to be assessed, using the same scale as above.

In answering the secondary research question as to the role of export-readiness selection criteria in the success or failure of the outbound trade missions programme for SMEs, a third measurement was introduced. Here, a comparative five-step analysis was selected to assess both the sampled SMEs' characteristics and TISA's own selection criteria against the internationally accepted norms for export-ready SMEs (the Pickernell characteristics). A results key was designed to indicate the overall degree of compatibility on a scale from 'no fit' to 'perfect fit'. Finally, a tabulation of the sampled SMEs' characteristics and a comparison to TISA's selection criteria would enable TISA's adherence to its own selection criteria to be assessed.

The balance of the chapter has dealt with the methodology applied to obtain a full understanding of the six selected alternative export promotion techniques. Ancillary considerations, such as the research limitations and research ethics, have also been addressed.

The next step in the research was the collection of the empirical data using the methods and tools described above. The following chapter, Chapter 5, sets out the resultant findings.

## **Chapter 5: Findings in relation to the creation of public value and the role of export-readiness selection criteria**

### **5.1 Introduction**

This chapter reports on the findings of the empirical research relating to the primary research question. Public value is measured in terms of the contribution to the SMEs' growth in export turnover (section 5.2) and the development of their export capacity (section 5.3).

The chapter also presents the findings on the first of the two secondary questions, namely what the role of the export-readiness selection criteria is in determining the success or failure of the outbound trade missions programme for SMEs (section 5.4). The findings relating to the second of the two secondary questions, namely a presentation of alternative export promotion techniques utilised elsewhere, are discussed in Chapter 6.

The first step in carrying out the empirical research was to identify the SMEs that were to be subjected to scrutiny. The selected methodology was to obtain a full list of national pavilions organised by TISA (who convenes national pavilions that include SMEs) for the three-year period 1 April 2014 to 31 March 2017. The list was subsequently narrowed down to four events hosted over this period. In selecting the four events, there were two considerations:

- (i) To ensure a reasonable distribution over the three-year period, the 36 months were divided into four equal nine-month periods, and one event was selected from each.
- (ii) Events that primarily attracted SME participation were selected, from which one was randomly chosen from the available events for each particular nine-month period. To verify that this judgement was indeed valid, the list of participants received from TISA were scrutinised in order to confirm that the participants were indeed mainly small or medium-sized.

The four national pavilion events ultimately selected were as follows:

- The India International Trade Fair (IITF) held in New Delhi, India, in June 2014, which focused on creative industries such as handicrafts, home décor, art jewellery and antiques. Altogether 34 enterprises participated in this national pavilion.

- Salon International de l'alimentation (SIAL) China held in Shanghai, China, in May 2015, which focused on wine and fine foods. A total of 30 enterprises participated in this event.
- FIHAV 2015 held in Havana, Cuba, in November 2015. Here, a diverse range of products were displayed, including capital machinery, metals, cosmetics, wine and other agricultural products. A total of 19 enterprises participated in this event.
- The Hong Kong Jewellery and Gem Fair in September 2016, which focused on jewellery manufacturers. A total of 17 enterprises participated in this fair.

The four selected national pavilions represented a wide variety of products as well as a fair geographic spread, thus guarding against any particular commodity or regional anomalies dominating the selection of companies.

Through probability sampling, five SMEs were selected from each of the four national pavilions, that is approximately one in every seven exhibitors at the New Delhi IITF, one in every six exhibitors at the SIAL China exhibition, one in every four exhibitors at the FIHAV 2015, Havana, Cuba, and one in every three exhibitors at the Hong Kong Jewellery and Gem Fair.

## **5.2 Results relating to SME export growth**

The first measurement in establishing whether public value is being achieved through DSBD's export promotion offering for SMEs was whether the participating enterprises had achieved export growth subsequent to, and as a consequence of, their participation in such events.

To this end, the questionnaire designed to elicit the required information from the selected SMEs included a set of questions specifically aimed at determining whether export growth was indeed achieved and, if so, what quantum of such sales could be ascribed to their participation in the national pavilion.

A collation of the information obtained from the questionnaires enabled an assessment of whether the individual enterprises managed to improve their export position subsequent to their participation in the specific national pavilions. What also needed to be factored in, however, was the actual costs incurred by TISA to host the pavilion. Whilst an enterprise may have recorded export sales, the costs attached to their participation may have offset any gain. Therefore, to reflect a more realistic export

gain, an apportioned cost needed to be deducted from the enterprise's export sales. This apportionment was calculated by determining the overall costs attached to each of the missions' national pavilions and dividing it by the number of enterprises hosted by TISA at the particular national pavilion. This reflected an average amount expended by TISA on each participating enterprise. This amount was then subtracted from the total export growth in order to determine whether there was a net inflow or outflow of funds associated with the particular SME's participation.

The costs attached to each of the national pavilions were provided by the DTI (Makhele, 2018). Noteworthy in this regard is that the quoted costs reflect a prudent approach, because ancillary costs, such as those attached to ministerial officiation at the events, were not included in the amount. Such expenses are borne by the individual ministries themselves and can in themselves be quite substantial, considering that the minister is normally accompanied by members of his/her staff, all requiring business class air travel, subsistence and travel allowances as well as high-end accommodation. The deputy minister of trade and industry, for example, officiated at the 2014 IITF national pavilion in New Delhi (DTI, 2014) and again at the 2015 FIHAV national pavilion (DTI, 2015b).

The average cost determination was as follows:

- For the 2014 IITF held in New Delhi, India, the average cost per enterprise participating in the TISA-organised national pavilion was R82 830. This was calculated by dividing the total cost of R2 816 216 by the 34 participating enterprises.
- For the South African national pavilion at the 2015 Sial, Shanghai, China, the average cost was R88 655, based on a total cost to TISA of R2 659 642 and 30 participating enterprises.
- For the South African national pavilion at the 2015 FIHAV, Havana, Cuba, the average cost was R134 821, based on a total cost to TISA of R2 561 596 and 19 participating enterprises.
- And for the 2016 Hong Kong Jewellery and Gem Fair, the average cost per participating enterprise was R341 168, based on a total cost to TISA of R5 799 860 and 17 participating enterprises.

Table 5.1 below presents the findings in relation to the export growth of SMEs that participated in the selected events. In the “Code” column, 1 was inserted where the enterprise had recorded a surplus as reflected in column 7. If no surplus or a deficit had been recorded, this was denoted with a 0. Next, the total number of enterprises who had recorded growth was compared to the coding key as represented in Table 5.2 below to determine the degree of success in creating public value through export growth as a consequence of participation in the national pavilions.

Table 5.1: Findings relating to public value achieved as a consequence of DSBD efforts, as represented by export growth

Enterprise	Q1	Q2	Q3	Sum (Q1-Q3)	Average cost	Surplus/ (deficit)	Code
1	0	0	0	0	R88 655	(R88 655)	0
2	R15 000	R350 000	R1 000 000	R1 365 000	R88 655	R1 276 345	1
3	0	0	R6 000 000	R6 000 000	R88 655	R5 911 345	1
4	0	R900 000	R2 700 000	R3 600 000	R88 655	R3 511 345	1
5	0	0	R1 000 000	R1 000 000	R88 655	R911 345	1
6	R5 400	0	0	R5 400	R82 830	(R77 430)	0
7	R10 000	0	R17 000	R27 000	R82 830	(R55 830)	0
8	R26 000	0	0	R26 000	R82 830	(R56 830)	0
9	R9 000	0	0	R9 000	R82 830	(R73 830)	0
10	R144 417	0	0	R144 417	R82 830	R61 587	1
11	R30 000	0	0	R30 000	R341 168	(R311 168)	0
12	R170 400	0	R5 794 000	R5 964 400	R341 168	R5 623 232	1
13	R3 550 000	0	R27 360 000	R30 910 000	R341 168	R30 568 832	1
14	0	0	0	0	R341 168	(R341 168)	0
15	0	0	0	0	R341 168	(R341 168)	0
16	0	0	0	0	R134 821	(R134 821)	0
17	0	0	0	0	R134,821	(R134,821)	0
18	0	0	0	0	R134,821	(R134,821)	0
19	0	0	0	0	R134,821	(R134,821)	0
20	0	0	R250 000	R250 000	R134,821	R115,179	1
Total number of enterprises registering export growth							8

(Source: Author, 2018)

Table 5.2: Coding key to determine degree of success in creating public value through export growth

Enterprises registering export growth	Degree of success in creating public value
0	No value
1 – 4	Some value
5 – 8	Reasonable value
9 – 12	Significant value
13 – 16	Good value
17 – 20	Excellent value

(Source: Author, 2018)

With eight enterprises having registered positive export growth, it was determined that in terms of public value secured through the taxpayer funds expended on the SME participation at the national pavilions, reasonable value had been created.

The next measurement, recorded in Table 5.3 below, was aimed at determining the selected SMEs' level of dependence on DSBD for facilitating their export growth. Where enterprises had recorded export growth due to their own efforts, this was coded 1, and where they had achieved no export growth due to their own efforts, it was coded 0.

Table 5.3: Analysis of public value added, as represented by export growth due to enterprises' own efforts

Enterprise	Q4	Sum (Q1-Q3)	Q5 (own-effort exports)	Code
1	R55 000 000	0	R55 000 000	1
2	R2 575 000	R1 365 000	R1 210 000	1
3	R10 000 000	R6 000 000	R4 000 000	1
4	R4 964 000	R3 600 000	R1 364 000	1
5	R13 900 000	R1 000 000	R12 900 000	1
6	R5 400	R5 400	0	0
7	R60 000	R27 000	R33 000	1
8	R36 000	R26 000	R10 000 <sup>1</sup>	0
9	R24 000	R9 000	R15 000 <sup>1</sup>	0
10	R374 593	R144 417	R230 176 <sup>1</sup>	0
11	R400 000	R30 000	R370 000	1
12	R5 964 400	R5 964 400	0	0
13	R67 081 600	R30 910 000	R36 171 600	1
14	R70 000 000	0	R70 000 000	1
15	Sales made, value not disclosed	0	Sales made, value not disclosed <sup>2</sup>	1
16	R18 000 000	0	R18 000 000	1
17	R18 500 000	0	R18 500 000	1
18	R11 500 000	0	R11 500,000	1
19	R43 000 000	0	R43 000,000	1
20	R35 000 000	R250 000	R34 750 000	1
<b>Total number of enterprises registering export growth due to own efforts</b>				<b>15</b>

(Source: Author, 2018)

Notes:

1. These enterprises disclosed that they had recorded export sales at the national pavilions of TISA only. The sales in addition to the particular pavilion were discarded, since they would have been offset against future TISA hosting costs.
2. Value not supplied, but it was determined through probing that the turnover had been over R2 million yet way under R47,5 million, and export sales was less than R100 000 per annum.

The results reflected in Table 5.3 above cannot be relied upon as conclusive evidence, as the questionnaire did not provide for the recording of sales emanating from subsequent participation in other TISA-organised national pavilions. What can however be accepted as accurate are the results for those enterprises that were coded 0, as it is clear that their export growth had been derived purely from their participation in the national pavilions. In this regard, five or 25% of the subject SMEs were completely reliant on DSBD-facilitated efforts.

The remaining information, although not decisive, does seem to indicate that the majority of the remaining enterprises that participated in the national pavilions probably possess the ability to grow their exports independently from DSBD's efforts.

### **5.3 Results relating to the development of SME export capacity**

The aim of the second measurement was to determine whether the SMEs that had participated in DSBD-facilitated national pavilions organised by TISA achieved public value in terms of an improvement in their export capacity. In this regard, the selected SMEs' export readiness both prior to and after participation in the relevant national pavilions was measured. To this end, a checklist for testing an enterprise's export readiness was modelled on the "Steps to Exporting" checklist developed by Enterprise Ireland (Enterprise Ireland, n.d.). This checklist contained the 30 criteria presented earlier in Figure 4.1. The pre-participation and post-participation positions of the participating enterprises were individually captured from the data recorded on the 'Enterprise Interview Questionnaires' (Annexure A) with their individual totals, as reflected in Annexure D and transcribed to Table 5.4 below.

The pre-mission and post-mission scores (columns 2 and 3) reflect the number of Enterprise Ireland attributes that the enterprise possessed. Column 4 was calculated by subtracting the number of attributes reflected in column 2 from the number of attributes reflected in column 3. Column 5 was coded 1 if the number of attributes, as calculated in column 4, had increased post-mission, and 0 if not. Column 6 was

coded 1 if DSBD had done follow-up work post-mission, and 0 if not. Column 7 was coded 1 where the enterprise's export capacity had improved and DSBD had done follow-up work, and 0 if not, with column 8 being the converse. However, where there had been no improvement or a regression in export readiness, 0 was reflected in both column 7 and column 8. The total of column 7 provides an indication as to the number of enterprises of which the added public value could in part be ascribed to DSBD. Column 8 reflects the number of enterprises where public value was added through their own efforts.

Table 5.4: Analysis of findings on public value added, as represented by export capacity development

Enterprise	Pre-mission score	Post-mission score	Improved position	Public value added Y=1, N = 0	DSBD follow-up Y=1, N = 0	DSBD effort	Enterprise's effort
1	19	22	3	1	0	0	1
2	13	27	14	1	0	0	1
3	24	24	0	0	0	0	0
4	28	28	0	0	0	0	0
5	23	24	1	1	0	0	1
6	9	9	0	0	0	0	0
7	13	15	2	1	0	0	1
8	10	10	0	0	0	0	0
9	8	12	4	1	0	0	1
10	8	8	0	0	0	0	0
11	10	20	10	1	0	0	1
12	22	23	1	1	0	0	1
13	21	20	(1)	0	0	0	0
14	21	21	0	0	0	0	0
15	14	15	1	1	0	0	1
16	18	18	0	0	0	0	0
17	27	25	(2)	0	0	0	0
18	26	26	0	0	0	0	0
19	22	23	1	1	0	0	1
20	19	29	10	1	0	0	1
<b>Number of enterprises with public value added</b>				10	0	0	10

(Source: Author, 2018)

The extent to which the DSBD intervention had added public value in terms of developing the export capacity of the SMEs that had participated in the national pavilions was determined based on the coding key reflected in Table 5.5 below.

Table 5.5: Coding key for determining the degree of success in creating public value through export capacity development

Enterprises registering improved export capacity	Degree of success in creating public value
0	No value
1 – 5	Reasonable value
6 – 10	Significant value
11 – 15	Good value
16 – 20	Excellent value

(Source: Author, 2018)

With ten enterprises having improved their export capacity since participating in the national pavilion, it was determined that in terms of public value secured, significant value had been added. However, the public value added cannot be ascribed to the efforts of DSBD, as they failed to do any follow-up work. The improvement is solely due to the efforts of the enterprises themselves. Of course, an argument could be made that the enterprises' participation in the national pavilions may have contributed to their knowledge, enabling them to make some improvements in their export capacity. This argument has however not been tested.

#### 5.4 Results relating to DSBD's export-readiness criteria

The third measurement was designed to assess DSBD's export-readiness criteria. This was firstly aimed at determining how the selected SMEs measured up against the Pickernell characteristics of an export-ready SME. Secondly, it aimed at evaluating how DSBD/TISA's selection criteria measured up against the Pickernell characteristics. And lastly, the objective was to assess how diligently DSBD was adhering to their own criteria.

The process which was designed to give effect to this measurement comprised five steps, namely:

- the determination of the characteristics of the subject SMEs;

- the assessment of the compatibility between the characteristics of the subject SMEs and the Pickernell characteristics;
- a determination as to the degree to which the two sets of characteristics matched up – fitted – with one another;
- ascertaining the compatibility between the TISA selection criteria and the Pickernell characteristics; and
- assessing the degree to which DSBD/TISA were adhering to their own criteria.

#### 5.4.1 Step 1: Determining characteristics of subject SMEs

A table (Table 5.6) was developed containing a list of the 20 enterprises scrutinised in this study, with columns for each of the Pickernell characteristics. The related information of the individual SMEs was then slotted in.

Table 5.6: Findings with regard to the characteristics of subject SMEs

Enterprise name	Sector	Size	Age (in years)	Technology & internet use	External networks	Age	Degreed	International trade experience
Enterprise						Owner/manager		
1	Outsource Manufacturing ("Mfg")	Small	21	Yes	No	56	Yes	20 years
2	Outsource Mfg	Small	11	Yes	Yes	58	No	6 years
3	Services	Small	12	No	Yes	55	Yes	27 years
4	Services	Small	10	Yes	Yes	56	Yes	10 years
5	Services	Small	15	No	Yes	51	Yes	20 years
6	Mfg	Micro	18	No	Yes	49	No	No
7	Mfg	Micro	12	No	Yes	50	No	No
8	Mfg	Micro	12	No	No	63	No	No
9	Mfg	Micro	5	No	Yes	38	Yes	No
10	Mfg	Micro	18	No	No	69	No	No
11	Mfg	Small	13	Yes	No	39	Yes	No
12	Mfg	Small	10	Yes	Yes	44	Yes	20 years
13	Mfg	Small	21	Yes	No	48	No	12 years
14	Mfg	Small	54	No	No	61	Yes	15 years
15	Mfg	Small	8	Yes	No	38	No	No

16	Mfg	Small	60	No	Yes	57	Yes	20 years
17	Services	Small	17	No	Yes	60	Yes	30 years
18	Mfg	Small	22	Yes	Yes	31	No	5 years
19	Mfg	Small	17	Yes	Yes	73	Yes	16 years
20	Mfg	Small	11	Yes	Yes	39	No	5 years

(Source: Author, 2018)

#### 5.4.2 Step 2: Assessing compatibility between SME characteristics and Pickernell characteristics

The aim of this step was to create a mechanism through which the characteristics of the DSBD-selected SMEs could be compared with the Pickernell characteristics so as to determine the degree of compatibility between the two. The results of this comparison are shown in Table 5.7. It contains the same list of enterprises as in Table 5.6, as well as the eight columns containing the Pickernell characteristics. This time, however, the individual SME findings as contained in Table 5.6 were compared with the Pickernell characteristics. Where there was a match, the relevant cell was coded 1, and where there was no match, it was coded 0.

Table 5.7: Findings - comparative analysis of subject SMEs and Pickernell qualifiers

Enterprise name	Sector	Size*	Age	Technology & internet use	External networks	Age	Degreed	International trade experience
	Manufacturing	Larger SME	>10 years	Yes	Yes	>45	Yes	Yes
	Enterprise					Owner/manager		
1	1	1	1	1	0	1	1	1
2	1	1	1	1	1	1	0	1
3	0	1	1	0	1	1	1	1
4	0	1	1	1	1	1	1	1
5	0	1	1	0	1	1	1	1
6	1	0	1	0	1	1	0	0
7	1	0	1	0	1	1	0	0
8	1	0	1	0	0	1	0	0
9	1	0	0	0	1	0	1	0
10	1	0	1	0	0	1	0	0
11	1	1	1	1	0	0	1	0

12	1	1	1	1	1	0	1	1
13	1	1	1	1	0	1	0	1
14	1	1	1	0	0	1	1	1
15	1	1	0	1	0	0	0	0
16	1	1	1	0	1	1	1	1
17	0	1	1	0	1	1	1	1
18	1	1	1	1	1	0	0	1
19	1	1	1	1	1	1	1	1
20	1	1	1	1	1	0	0	1
<b>Total</b>	<b>16</b>	<b>15</b>	<b>18</b>	<b>10</b>	<b>13</b>	<b>14</b>	<b>11</b>	<b>13</b>

(Source: Author, 2018)

### 5.4.3 Step 3: Defining the fit

In this instance, the objective was to determine to what degree the DSBD-sponsored SMEs' characteristics matched those of Pickernell. Table 5.8 contains the coding key used to determine the degree of compatibility, which ranges from "No fit" to "Perfect fit". This key was subsequently applied to the findings reflected in Table 5.7.

Table 5.8: Coding key to determine degree to which subject SMEs fit characteristics of export-ready SMEs

Number of correlating SMEs	Degree to which subject SMEs fit characteristics of export-ready SMEs
1 – 4	No fit
4 – 8	Poor fit
8 – 12	Reasonable fit
13 – 16	Good fit
17 – 20	Perfect fit

(Source: Author, 2018)

The exercise above yielded the following findings with regard to the degree to which the characteristics of the subject SMEs corresponded with the eight Pickernell characteristics:

In terms of sector, with a score of 16, there was a good fit between the Pickernell characteristics and the characteristics of the subject enterprises. In terms of enterprise size, with a score of 15, it was also a good fit. In terms of the age of the enterprise, with a score of 18, it was a perfect fit. In terms of the enterprises' use of modern

communication technology, with a score of 10, it was a reasonable fit. And in terms of the enterprises' linkages with external networks, with a score of 13, it was a good fit.

In terms of the age of the owner/manager, with a score of 14, it was a good fit. In terms of the owner/manager's qualifications, with a score of 11, it was a reasonable fit. And in terms of the owner/manager having international trading experience, with a score of 13, it was a good fit.

#### **5.4.4 Step 4: Ascertaining compatibility between TISA selection criteria and Pickernell characteristics**

Here, the purpose was to ascertain how TISA's selection criteria measured up against the Pickernell criteria, and how conscientiously TISA was applying their own selection criteria. (The selection criteria of TISA were measured as they serve as DSBD's implementing agents for SME participation in the national pavilions at international exhibitions.)

This thesis has established wide support for the notion that an export-ready SME displays specific characteristics. Various authors have over time identified individual characteristics that combine into the set of characteristics of an export-ready SME as identified by Pickernell and colleagues (2016:37-40). Therefore, in order to draw conclusions as to the role of TISA's selection criteria in the success or failure of the outbound trade mission programmes for SMEs (the first of the two secondary questions explored), the Pickernell characteristics were used as a benchmark with which TISA's criteria were compared.

According to TISA Chief Operating Officer Riaan le Roux (2018a), TISA indeed recognises the importance of having sound selection criteria for enterprise participation in their export promotion missions. He confirmed that TISA needed to "prove that a [mission] was commercially viable" by providing return-on-investment evidence to the Auditor-General. He also mentioned that it was not "uncommon" for sales of a billion rand or more to be secured during such missions, for example by the defence industry. Yet as this thesis concerns itself with the contribution by SMEs participating in the national pavilions, it is contended that even though the overall return of investment for TISA missions may be good, the proportion of that success accounted for by the individual participating SMEs may not necessarily reveal the same.

Prescripts, according to Le Roux, also require reports on the various sectors that have participated in the missions, the geographic origin of the products, the size of the businesses that have participated, and the level of women and youth participation. The Auditor-General requires this information to ensure compliance with various national policies that commanded efforts to include small business, youth and women in all spheres of economic activity, including international trade (Le Roux, 2018a).

In the following paragraphs, TISA's selection considerations are described in relation to each Pickernell characteristic, as gleaned from the interview with Le Roux.

- **Sector**

TISA designs its programmes in line with the South African government's overarching industrial policy, IPAP (Le Roux, 2018a). According to Le Roux, TISA's current export promotion programmes include only the manufacturing sector, although they do have a strategy for the services sector as well. With regard to the services sector, they are in the process of determining "the low-hanging fruits and the long haul" (Le Roux, 2018a). So far, the built environment and the management of hotels have been identified as having the "most probable chance of success" in the services sector (Le Roux, 2018a).

In terms of sector, the Pickernell characteristics suggest that enterprises in manufacturing are indeed more likely to succeed in the export market, which renders the TISA sector focus a clear match.

- **Size of enterprise**

When selecting enterprises to participate in the TISA-hosted national pavilions at international exhibitions, care is taken to ensure a mix of participants, including large, medium-sized as well as small companies (Le Roux, 2018a). The rationale behind this, said Le Roux, was for the larger companies to mentor the smaller companies at exhibitions.

With regard to small enterprises, Le Roux (2018a) asserted that TISA "does not discriminate when it comes to the size of the enterprise". He pointed to the National Small Business Amendment Act, (RSA, 2004), which obligated TISA to include smaller enterprises in its export promotion programmes. Inter alia it tasked them to "facilitate international and national market access for products and services of small

enterprises". Le Roux also cited EMIA, of which the financial benefits are significantly more generous for SMMEs than for other-sized companies (DTI, n.d.(c)). Table 5.9 below illustrates the bias.

Table 5.9: Financial benefits granted to companies participating in TISA missions: SMMEs vs other-sized enterprises

<b>Economy-class return ticket)</b>	
SMMEs (turnover less than R40 million)	100% to a maximum of R17 000
Other-sized enterprises	50% to a maximum of R8 500
<b>Hotel accommodation (subsistence allowance)</b>	
SMMEs (turnover less than R40 million)	R3 000 per day
Other-sized enterprises	R3 000 per day (no benefits under national pavilion)
<b>Space rental, stand construction, advertising and marketing</b>	
SMMEs (turnover less than R40 million)	100% of the total costs
Other-sized enterprises	No benefits
<b>Freight forwarding</b>	
SMMEs (turnover less than R40 million)	100% of the total costs
Other-sized enterprises	The maximum permitted weight is 2 000 kg or 3 m <sup>3</sup>
Cost of brochures	80% of the total cost (only for mission organisers)

(Source: Department of Trade and Industry (DTI) (n.d.(c))

In terms of enterprise size, the Pickernell characteristics suggest that larger SMEs are more likely to succeed in the export market. Therefore, in this respect, the TISA selection criteria are at odds with those of Pickernell.

However, Le Roux (2018a) added a qualification in this regard, saying that, in practice, TISA tried to "coach micro-enterprises out" of participating in their outbound missions, pointing out to them the benefits of "focusing on the local market" and the danger of getting "hurt" should they attempt to enter the export market before they are ready to do so.

- **Age of the enterprise**

TISA does not consider the age of the enterprise in their selection criteria, although they do prefer enterprises to have had some experience and to have graduated through the Small Exporters Passport Programme (Le Roux, 2018a). This is a defined programme migrating an enterprise through five stages from showing an interest in

participating in international markets, to being experienced exporters (Le Roux, 2018a). The programme entails three levels of training, beginning with the most basic, then advancing to the “nuts and bolts of exporting” and, finally, “fine-tuning” through sharing “tips of the trade” (Le Roux, 2018a). As it is not a prerequisite for enterprises to have completed the programme, however, SMEs who have not done so are not disqualified (Le Roux, 2018a).

In terms of enterprise age, the Pickernell characteristics suggest that SMEs older than ten years are more likely to succeed in the export market. Here too, therefore, the TISA selection criteria are at odds with those of Pickernell.

- **Technology and internet use**

Whilst technology uptake plays a role during TISA’s adjudication processes, they do not specifically exclude enterprises that do not make use of technology (Le Roux, 2018a). Nevertheless, TISA does caution enterprises to have at least a website, as this is what international buyers would normally expect from credible exporting enterprises. Strictly speaking, however, TISA’s selection criteria do not take the use of modern communications technology into account (Le Roux, 2018a).

In terms of an enterprise’s level of technology use, including the internet and websites, the Pickernell characteristics suggest that SMEs that display extensive technology uptake in their operations are more likely to succeed in the export market. Therefore, despite being conscious of this necessity, since TISA does not have it as a prerequisite, their selection criteria are again at variance with those identified by Pickernell.

- **Enterprise access to external networks**

Where an enterprise is part of an organised business structure, TISA considers that enterprise as having reached a level of maturity. Should such an enterprise become interested in engaging in exports, TISA would encourage it to become part of the relevant export councils. Yet here too, the lack of access to or participation in business networking forums, especially those that can establish contacts with and introductions to international business opportunities, is not a discriminatory criterion. As mentioned, it does however assist TISA in evaluating the company’s level of maturity. Should there be accommodation constraints attached to a particular mission, therefore, enterprises

with access to networking and organised business forums have a higher chance of being selected (Le Roux, 2018a).

In terms of enterprise access to external networking and business forums, the Pickernell characteristics suggest that SMEs that have such connectivity are more likely to succeed as exporters. So, even though TISA does take it into account in an effort to reduce numbers in instances of oversubscription, it is not a mandatory selection criterion and is thus at variance with the Pickernell characteristics of export-ready SMEs.

- **Enterprise owner/manager characteristics**

Pickernell and colleagues found that the owners or managers of export-ready SMEs displayed certain characteristics in terms of age, levels of education and international trade experience. Yet in selecting enterprises to participate in its export programmes, TISA does not require the owners/managers of participating enterprises to have reached any particular age level or to have obtained any particular minimum level of education (Le Roux, 2018a).

Le Roux explained that the exclusion of younger individuals from participating in TISA programmes would be contrary to policy coherence. Overarching national policy requires programmes of government to make concerted efforts to include the youth. Moreover, in its reporting to the Auditor-General, TISA is required to declare youth participation in its programmes, including in the outbound trade missions (Le Roux, 2018a).

In selecting enterprises for outbound trade missions, TISA does take into consideration whether the owner/manager has international trade experience (Le Roux, 2018a). The individual should “at least have done the basic building blocks” of the Small Enterprise Export Programme. Nevertheless, TISA’s selection criteria do not include specifics with regard to the type of international experience, nor the preferred minimum number of years of experience abroad or in international trade (Le Roux, 2018a).

In terms of the characteristics of the owners/managers of export-ready SMEs, the Pickernell characteristics suggest that SMEs with managers who are older than 45, possess higher levels of education (degree(s)) and have been exposed to business

abroad, either due to having lived abroad or participated in international trade, are more likely to succeed in the export market. With regard to the age and qualification criteria, TISA by design does not discriminate against owners/managers based on either age or qualification.

Despite the fact that TISA does claim to take international trade experience into account when selecting enterprises to participate in their international trade missions, their minimum standard of experience is restricted to completion of “at least ... the basic building blocks” of the Small Enterprise Export Programme (Le Roux, 2018a). This falls short of the standard anticipated by the Pickernell characteristics. Accordingly, it is concluded that, in this regard, TISA’s selection criteria do not match Pickernell’s features.

In summary, therefore, of the eight Pickernell characteristics of export-ready SMEs, TISA’s selection criteria match only in terms of sector (manufacturing). There is no exclusionary or discriminatory criterion in TISA’s selection processes with regard to enterprise size, age, technology and internet use, or access to external networks. While TISA may well take the use of technology and access to external networks into consideration in instances where missions are oversubscribed, these characteristics are not selection requirements. The same applies to SME owner/manager characteristics, namely age, educational qualifications and international experience.

Apart from sector, TISA appears – by design – very accommodating and lenient in all other characteristic categories in their pursuit of the national priorities of supporting SMEs, the youth and historically disadvantaged enterprises. The wisdom of this choice remains to be seen.

Table 5.10 contains a comparative summary of TISA’s selection criteria against the Pickernell characteristics of an export-ready SME.

Table 5.10: Comparative analysis of TISA's selection criteria against the Pickernell characteristics of an export-ready SME

	Enterprise					Owner / manager		
	Sector	Size*	Age	Technology & internet use	External networks	Age	Degreed	International trade experience
Pickernell <i>et al.</i>	Manufacturing	Larger SMEs	>10 years	Yes	Yes	45	Yes	Yes
TISA	Manufacturing	>Micro	Any age	Not required	No	No limit	No	No

(Source: Author, 2018)

#### 5.4.5 Step 5: Assessing DSBD/TISA's adherence to own selection criteria

In the final instance, the subject SMEs' characteristics as recorded in Table 5.6 were assessed against the selection criteria of TISA. Where there was a match, it was coded 1, and no match was coded 0. The findings are presented in Table 5.11.

Table 5.11: Subject SME characteristics seen against TISA selection criteria

Enterprise name	TISA selection criteria							
	Sector	Size*	Age	Technology & internet	External networks	Age	Degreed	International trade experience
	Manufacturing	> Micro	Any age	Not required	No	No limit	No	No
	Enterprise					Owner/manager.		
1	1	1	1	1	1	1	1	1
2	1	1	1	1	1	1	1	1
3	0	1	1	1	1	1	1	1
4	0	1	1	1	1	1	1	1
5	0	1	1	1	1	1	1	1
6	1	1	1	1	1	1	1	1
7	1	1	1	1	1	1	1	1
8	1	1	1	1	1	1	1	1
9	1	1	1	1	1	1	1	1
10	1	1	1	1	1	1	1	1
11	1	1	1	1	1	1	1	1
12	1	1	1	1	1	1	1	1

13	1	1	1	1	1	1	1	1
14	1	1	1	1	1	1	1	1
15	1	1	1	1	1	1	1	1
16	1	1	1	1	1	1	1	1
17	0	1	1	1	1	1	1	1
18	1	1	1	1	1	1	1	1
19	1	1	1	1	1	1	1	1
20	1	1	1	1	1	1	1	1
<b>Total</b>	<b>16</b>	<b>20</b>						

(Source: Author, 2018)

Applying the same coding key as that in Table 5.8 to determine the degree of compatibility between the selected SMEs' characteristics and the Pickernell characteristics – the range from “no fit” to “perfect fit” – the degree to which TISA adhered to its own selection criteria was found to be as follows:

Sector	Size*	Age	Uses tech & internet	External networks	Age	Degreed	International trade experience
Enterprise					Owner/manager		
<b>Good fit</b>	<b>Perfect fit</b>	<b>Perfect fit</b>	<b>Perfect fit</b>	<b>Perfect fit</b>	<b>Perfect fit</b>	<b>Perfect fit</b>	<b>Perfect fit</b>

(Source: Author, 2018)

## 5.5 Conclusion

This chapter set out to present the findings of the empirical research with regard to the primary research question. Public value was measured in terms of contribution to the SMEs' growth in export turnover and the development of their export capacity. In addition, it contains the findings of the first of the two secondary questions, namely that on the role of the export-readiness selection criteria in determining the success or failure of the outbound trade missions programme for SMEs.

The three-year period 1 April 2014 to 31 March 2017 was chosen for the study, four TISA-organised national pavilions were selected, and five SMEs were identified for each, providing a respondent pool of 20 enterprises in total.

With regard to the public value derived from DSBD's efforts, it was found that eight of the 20 subject enterprises had registered export growth emanating from their

participation in the national pavilions – therefore, a reasonable public-value yield. Also, in terms of export growth, it was found that at least 25% of the enterprises had relied solely on their participation in the national pavilions for their export sales.

In respect of the public value derived in terms of the development of SME export capabilities, it was found that ten of the enterprises had shown an improvement in their export capabilities subsequent to their participation in the TISA-organised national pavilions – thus, a significant public-value add. However, as DSBD had done no follow-up work after the enterprises' participation in the national pavilions, the added value was solely due to the enterprises' own efforts.

In assessing the individual enterprises' characteristics against the eight Pickernell characteristics of an export-ready SME, the fit ranged from reasonable to perfect. The results for the enterprises' individual characteristics were a reasonable fit with regard to technology and internet use, a good fit with regard to sector, size of the enterprise and the use of external networks, and a perfect fit with regard to age of the enterprise. With regard to the owner/manager characteristics, the results pointed to a reasonable fit in terms of having a degree, and a good fit in terms of owners/managers' age and international trade experience. The empirical research also included a comparative analysis of the Pickernell characteristics of an export-ready SME and TISA's selection criteria. It was found that the only fit was that the enterprises were drawn mainly from the manufacturing sector. For the balance of the characteristics, TISA set much lower standards.

An interpretive analysis, discussion and value judgement on these findings is contained in Chapter 7. First, however, Chapter 6 presents the research results in respect of the second of the two secondary questions, namely an exploration of potential alternative export promotion techniques that may supplement or replace DSBD's current practices to create greater public value.

## **Chapter 6: Exploring alternative SME export promotion techniques**

### **6.1 Introduction**

With regard to the secondary research question on potential alternative export promotion techniques that may supplement or replace DSBD's current practices to create greater public value, the literature review revealed a number of international practices that warranted further exploration.

Asian countries such as Japan, South Korea, Singapore and the Chinese province of Taiwan, for instance, have introduced programmes that link their SMEs to larger firms as subcontractors. This disciplined approach, which enables SMEs to focus on their core business, enhances these small enterprises' attractiveness for larger firms as export suppliers.

In a similar vein, several larger companies in countries such as Brazil, India, Turkey, South Korea and Japan have established models that benefit SME development, including the facilitation of SME export marketing. In essence, the larger corporations develop their own trading companies to manage their own exporting and importing, while also making available their facilities to a range of SMEs, acting as the smaller enterprises' international marketing channel. In fact, these trading companies are not necessarily restricted to being arms of large companies but could be independent and stand-alone. The case study in paragraph 6.2.2.1 describes such a stand-alone model.

The unique approach in Germany also commanded attention. Here, government allocates funds to the network of private-sector German chambers of commerce and industry abroad, who undertake a range of export promotion activities, aimed mainly at SMEs. Moreover, government funds targeted export-sector-focused promotion activities, through which specific enterprises are identified and linked to well-researched business opportunities in specific sectors.

The Chinese setting, in turn, offered two export promotion techniques worth exploring. The first was the SME Service Centre of Wantran. This incubation centre houses specialists in all the essential areas of operating a modern business. As such, it offers SMEs the opportunity either to undergo training and upskilling to develop their own internal capacity, or to outsource specialist services so that SMEs can focus on their core function of manufacturing. The second technique involved the setting up of

permanent display centres in potential foreign markets, of which the Dongguan Commodity South Africa Display Centre/South Africa Commodity Dongguan Display Centre serves as an example. Again, the objective is to enable SMEs to focus on core business whilst the centres assist them with marketing, administrative, logistical and regulatory expertise to guide them in their international trading efforts.

This chapter examines these techniques more closely. In doing so, the aim is to provide DSBD with a menu of options they may wish to consider when reflecting on how best to execute their SME export promotion mandate and ensure that sufficient public value is generated in the process.

## **6.2 Japanese discipline**

By the end of World War II, Asian economies were crippled. The mammoth task to revive these economies required determined national efforts. At the time, countries such as Japan had very little international market exposure. Partnering with the private sector, their governments embarked on a disciplined journey to economic recovery, which ultimately transformed them into the giant trading nations they are today (Yuzawa, 2018).

The literature review revealed two Asian export promotion methods, namely subcontracting and trading houses. These two methods are credited for having contributed to the success achieved by these SME-driven economies. Hodgkinson (2000) has for example argued that “SMEs played a significant role in the Asian ‘economic miracle’. Their predominant role was as subcontracted suppliers of parts to large assemblers of automobiles and electric equipment”. And Yoshino, in Dziubla (1982) declared that the success secret of trading companies is “its ability to bring about synergistic impact”. In essence, the techniques provide for indirect entry by SMEs into the export market through collaboration with large enterprises.

The contribution of subcontracting and trading houses in facilitating SMEs’ entry into the export market was initially surveyed through a desktop study, the results of which are documented in paragraphs 6.2.1 and 6.2.2 below. However, to fully grasp the practicalities of these techniques, particularly of the lesser-known trading house model, direct engagements with those applying these methodologies were required. To this end, a study visit was undertaken to Tokyo, Japan, where interviews with a trading house shed further light on the matter, as documented in paragraph 6.2.2.1.

## 6.2.1 Indirect exporting through subcontracting

### Defining the subcontracting model

Subcontracting is when enterprises “carry out the processing of material, component parts, or subassembly ... [for another enterprise], according to the specifications provided by the customer firms” (Imrie, in Kim & Hemmert, 2015:3). It therefore involves “collaborative relationships between independent and often competitive firms” (Hodgkinson, 2000:2).

In countries such as Japan, South Korea, Singapore and the People’s Republic of China’s Taiwan province, governments have introduced programmes that coordinate and provide support for linking SMEs to larger firms as subcontractors (ITC, 1999:4). From the perspective of export promotion, this is regarded as an “indirect internationalisation strategy” through which SMEs provide component parts or services to other domestic enterprises participating in regional or global value chains (GVCs) (WTO, 2016:30).

However, subcontracting need not be restricted to domestic inter-firm linkages. Many manufacturing SMEs have transcended domestic confines, “leapfrog[ging] ... the traditional barriers and constraints” (Wattanapruttipaisan, 2002:67) with regard to the local and international competitiveness of SMEs and their entry into the global market. Their participation in GVCs through subcontracting transactions are primarily guided by customer preference (Bradley, Meyer & Gao, in Kim & Hemmert, 2015:3). In fact, measures to attract such a wider network of inter-firm linkages across borders have permitted countries such as Japan and South Korea to penetrate international markets (ITC, 1999:4).

According to Hodgkinson (2000:5), the Japanese model of subcontracting between SMEs and larger enterprises entails the organisation of production processes “as inter-firm transactional relationships rather than ... vertical integration”. As such, it can be characterised as a multi-tier system. The parent firm or assembler has direct relationships with only a limited number of first-tier subcontractors, who, in turn, have relationships with second-tier subcontractors, who again have relationships with third-tier subcontractors, and so forth (Hodgkinson, 2000:5). The parent companies also provide the subcontractors with a range of support measures, including information, credit, technical support (Itoh & Urata, in Hodgkinson, 2000:5), capital, collateral “in

the form of secure production contracts”, as well as marketing and distribution expertise (Wattanaputtipaisan, 2002:67).

In their study of three South Korean manufacturing industries, Kim and Hemmert (2015:3) found that, similar to the Japanese model, subcontracting relationships are based on bespoke work for customer enterprises, who “have the overall price, quality and delivery responsibility when selling products or services ... to third parties”.

In summary, therefore, subcontracting establishes an interrelated ecosystem between larger enterprises, which own the final product output, and a range of subcontracting enterprises, mainly SMEs, which provide integral component parts or services for that final product output. This is illustrated in Figure 6.1 below.

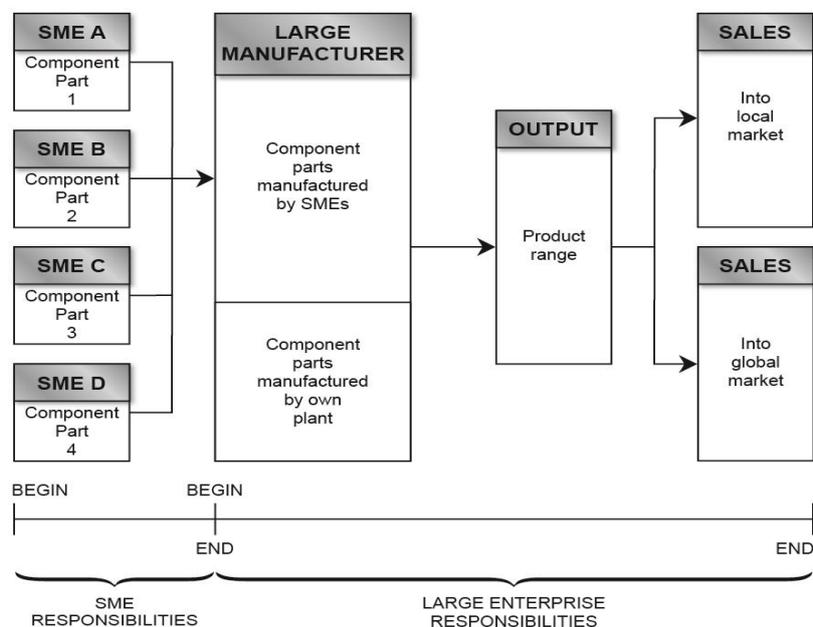


Figure 6.1: The functioning of the subcontracting model (Source: Author, 2018)

### **Benefits and challenges**

The subcontracting of SMEs seems to hold a number of benefits for both the SMEs and the larger enterprises. These include the following:

- *Helping SMEs overcome limitations.* Many SMEs have difficulty accessing finance to expand their operations, develop their technology and enter new markets (Okatch, Mukulu & Oyugi, 2011:199). Collaborative arrangements with larger enterprises help them overcome these limitations. According to Okatch and colleagues (2011:199), one of the major benefits of these contractual inter-firm

relationships with larger enterprises is the guaranteed purchase of the parts and components manufactured by the SMEs. Further constraints overcome by subcontracting include access to capital, raw materials, efficient production facilities and managerial skills (Okatch, Mukulu & Oyugi, 2011:190).

- *Reducing cost-related risk.* Indirect exporting through subcontracting is regarded as the least risky way of entering the export market. This is because the SME does not have to bear the upfront and so-called sunk costs of searching for new customers and negotiating contracts (WTO, 2016:30). It also reduces information and transaction costs, eases payment conditions, facilitates regular receipt of payments, and assists SMEs to improve their creditworthiness (Okatch, Mukulu & Oyugi, 2011:190-191).
- *Freeing up capacity for core business.* By opening up new markets for SMEs and assuming the responsibility for market development and marketing on their behalf, large firms enable SMEs to focus on their core business of manufacturing and service delivery (Okatch, Mukulu & Oyugi, 2011:190).
- *Knowledge acquisition for SMEs.* The integration of SME products and/or services into the sophisticated output of larger enterprises enables SMEs to acquire “valuable technological and market-related knowledge” without expending their own limited resources on acquiring or developing it (Kim & Hemmert, 2015:4-5).
- *Local insight for parent firms.* Subcontracting enables larger transnational firms to “gain the local knowledge and contracts required for operating effectively” in the local value chain, as well as for managing “any social or political controversy surrounding the company activities” (Okatch, Mukulu & Oyugi, 2011:191).

Yet subcontracting also poses certain challenges:

- *Loss of control.* The SMEs in subcontracting relationships do not necessarily have overall control over their production value chains, the required input materials or the machinery and technical specifications, as these are provided by their customers, the larger enterprises (Kim & Hemmert, 2015:4).
- *Captive dependency.* Subcontracting results in “a much higher degree of closeness and interdependence” between SMEs and parent enterprises. This may lock the SMEs into captive relationships, hobbled by resource dependence and the inability to develop and sell their own products. Collectively, this hampers their own business development efforts (Kim & Hemmert, 2015:4).

- *Disconnect between interests.* The parent firms' interests may not necessarily be the same as those of the SME subcontractors. Parent firms are inclined to "invest in building up SMEs' capabilities and competitiveness only when the investment can be expected to yield an attractive return within a reasonable period". Moreover, parent firms may choose to invest only if their investment can aid their own strategic efforts to diversify and differentiate their "products and product range, supply sources and market locations and segments" (Wattanaputtipaisan, 2002:78-79).

### **The apparent key to successful subcontracting**

Nevertheless, subcontracting can be highly successful as an alternative technique for SME export promotion. Successful subcontracting relations have "often culminated in the sourcing of 75-100% of the local subcontractors' output" (Wattanaputtipaisan, 2002:79). In her study on subcontracting as a bridgehead to competitiveness, Wattanaputtipaisan highlights some remarkable examples, such as the acquisition of local packaging materials by Nestlé in China, the purchasing of detergent paste by Unilever in Vietnam, hardware supplies to Intel from Malaysia, and parts and components supplies to Toyota Motor from Thailand (2002:79).

Running like the proverbial golden thread through most jurisdictions where subcontracting has successfully promoted SME exports is the existence of an appropriate supporting framework of government policies and drivers of economic development. The Japanese government, for instance, has developed a set of programmes aimed at upgrading SMEs' technology, knowing that it is the more technically advanced, higher-tier suppliers who are able to take up global market opportunities. These programmes range from the provision of preferential loans, to the introduction of preferential fiscal and tax measures, and the rendering of technical assistance (Hodgkinson, 2000:9). Most Japanese industries have also set up public technical support centres to, amongst others, undertake contract research and development, exchange information between firms and universities, and provide technical assistance to SMEs (Hodgkinson, 2000:9; Wattanaputtipaisan, 2002:79). The Republic of Korea, Taiwan Province of China and Singapore, in turn, have introduced programmes aimed at increasing SMEs' response capacity to make them more attractive as export suppliers to large firms (ITC, 1999:4). Governments also embark on policy measures to remove "institutional impediments which make small

suppliers riskier and more expensive for assemblers” (Okatch, Mukulu & Oyugi, 2011:200).

In sum, the essence of subcontracting is the creation of a relational ecosystem between a large enterprise and a range of SMEs. The large enterprise, being the proprietor of the end product, enters into contractual arrangements with the SMEs for the supply of component parts and/or services to be integrated into the final product, which the large enterprise then assembles and markets locally and abroad. In this way, SME products are indirectly introduced into international markets, without the smaller enterprises having to deal with the many challenges and constraints SMEs typically face when attempting to enter the export market.

### **6.2.2 Trading houses, or the “sogo shosha”**

Trading houses are general trading companies (GTCs) that serve as intermediaries between the producers of a broad and diverse range of products on the one hand, and the markets on the other (Eum & Lee, 2015:301). They facilitate entry for enterprises that wish to penetrate international markets, but “lack the capacity to search for and reach the markets” (Eum & Lee, 2015:307). GTCs also make funding available to their customers for purposes of producing and marketing their goods, both locally and abroad (Dziubla, 1982:456).

In Japan, these GTCs are known as “sogo shosha” and are defined as “wholesalers which mainly engage in export and import trade” as opposed to domestic trade (Tanaka, 2012). Acting as intermediaries between domestic companies and international markets or companies, they have extended their operations across goods and regions (Eum & Lee, 2015:307).

GTCs’ function is threefold:

- *Minimising risk inherent in international trade.* Importing and exporting simultaneously, GTCs are able to mitigate against the risk of currency exchange rates fluctuations, as they buy and sell in local currencies. Whilst they may therefore need to absorb foreign exchange losses for their customers as a result of transactions in one country, those losses can be offset against a foreign exchange gain resulting from purchases in another country (Dziubla, 1982:430-431). In addition, GTCs have a unique ability to reduce fluctuations in demand by

creating long-term supply and demand, facilitating stability in products and materials supplies, and continuously generating new business. This they achieve by organising joint ventures with large entities overseas, such as for the extraction of raw materials. Through these ventures, they create a sustainable supply of raw materials to the domestic market, and also generate a demand for transportation, construction and mining equipment abroad (Dziubla, 1982:430-431).

- *Saving by harnessing economies of scale.* One of the most important savings made in this regard is in the costs associated with collection and dissemination of information about market opportunities, which costs are fixed regardless of use. The key to lowering the cost, therefore, is to increase usage. It follows, then, that the once-off cost to the GTC can be spread across the various product lines of its individual customers, who are spared the need to produce their own set of data (Dziubla, 1982:431). Another area that illustrates the advantage of economies of scale is average general selling and administrative expenses, which for the GTCs in Dziubla's research was very low – at about 1,3% of revenues – compared to the 2,5% of SMEs (1982:432). Finally, savings are made in the areas of transportation, warehousing and insurance. The nature of GTCs' business involves the handling of diverse goods in diverse locations. By consolidating the goods supplied by their various customers, they are able to charter entire freighters, aircraft, trains or other forms of cargo transportation. Similarly, based on the sheer volume of goods and the guarantee of future business, GTCs secure beneficial rates on insurance and warehousing, reducing the overall cost of doing business (Dziubla, 1982:433).
- *Using capital efficiently.* Minimising risk and harnessing efficiencies of scale, GTCs ensure the efficient use of capital. By reducing the risks in using capital, they are in a better position to obtain capital and create credit than individual traders (Eum & Lee, 2015:434). And achieving economies of scale means that the GTCs can significantly reduce costs to its customers, which increases their amount of capital available for use. As Eum and Lee (2015:434) explain: "The money saved is capital, which otherwise would have been unavailable."

The GTCs' unique benefit offering includes their ability to "act as one-stop exporters for the clients: they provide financing, market research, management expertise, shipping, insurance, warehousing, and wholesale and retail distribution" (Dziubla,

1982:442). They also provide professional trading capacities that local enterprises cannot easily access otherwise, such as international networks with local intermediaries abroad, foreign-language skills, up-to-date market trends, and sensing legal and political changes that may affect market potential (Eum & Lee, 2015:307).

In terms of SME export promotion, GTCs are particularly relevant in the following two respects:

Firstly, they help producers overcome the lack of “brand power and appeal to wider markets”, and broaden choices for customers (Eum & Lee, 2015:307). In this regard, Eum and Lee (2015:307) have found that products produced by SMEs in developing countries were labelled as the GTC’s products, which made the products “more approachable to customers on the other side of the world”. This is said to have assisted local SMEs in refocusing their efforts from intensifying local competition to meeting the GTC’s requirements instead. As the SMEs had to satisfy the GTC’s selling markets, they were driven to meet global-market quality standards, which not only impelled them to produce better products more cheaply, but also helped them advance technologically (Eum & Lee, 2015:307). GTCs further enhance SMEs’ brand power and appeal by supplying them with goods and materials, as well as assistance with export procedures and financing. The Japanese sogo shoshas have been doing so since the early 1960s (Ryan, 2017:14). Following suit, the South Korean government also established trading companies in response to an overcrowded, resource-challenged SME market. Like the Japanese sogo shoshas, the South Korean trading companies were tasked with marketing activities in diversified markets, expanding human resources to achieve economies of scale, serving as intermediaries for domestic SMEs, and trading in various types of goods (Eum & Lee, 2015:312-313).

Secondly, GTCs/sogo shoshas find application in the context of SME export promotion on account of their ability to coordinate manufacturing SMEs’ activities “so that these firms complement each other’s skills in performing a variety of specialized manufacturing and distribution functions” (Dziubla, 1982:429). For example, sogo shoshas have in many instances organised a range of enterprises in a particular product area “into vertical structures running from raw material production through fabrication and marketing to retail distribution in all markets of the world” (Dziubla,

1982:446). This unlocks a wealth of opportunities, both upstream and downstream (Ryan, 2017:1), for participating SMEs in the export chain.

In essence, the function of GTCs/sogo shoshas is to provide an all-inclusive trading platform that offers the full range of services needed to trade, both locally and internationally. This eases the burden for SMEs in particular, in that it offers them specialised trading expertise so that they can focus on their core manufacturing tasks.

By exporting through GTCs, SMEs minimise the risks attached to international transactions, reduce costs by taking advantage of economies of scale, and are able to benefit financially from more efficient use of capital and funding.

Furthermore, by organising a range of enterprises within a particular product area into vertical structures encompassing the entire export chain, GTCs unlock both downstream and upstream benefits for participating SMEs.

#### **6.2.2.1 Case study of an independent Japanese sogo shosa**

To understand the practical functioning, structuring, mechanisms, services and benefits of the Japanese sogo shosha system, a visit was conducted to such a GTC in Tokyo, Japan. The company in question is a general trading house that focuses on the promotion of international trade in the food and beverages as well as cosmetics sectors.

##### **Background information**

The sogo shosha that was interviewed is a private company. However, whilst it works within the private sector, it also provides consultancy services to the Japanese government and does SME export development work on the government's behalf.

Should a Japanese company have a product it wishes to sell, whether in the local or overseas market, but lacks the knowledge and capacity to do so, it can approach the sogo shosha for assistance. The sogo shosha may then purchase the product from the manufacturer and sell it on, either to the local market through its own network, or to overseas markets through the network of importers it has cultivated. This particular sogo shosha's importer network spans 21 countries, ranging from a single importer in some countries to various importers in others (X, 2018).

Pull factors attracting SMEs to the service offered by the sogo shosha include the smaller enterprises' lack of sales and marketing knowledge (e.g. experiencing difficulty identifying and meeting overseas buyers) as well as the many trading obstacles in the food sector (e.g. stringent country-specific health requirements) (X, 2018).

This sogo shosha is itself a specialist SME with a staff complement of twelve, of whom seven are located at its Tokyo head office, and five in Thailand. Of the seven staff members at head office, three are export experts and four are administrative staff. The organisation has an annual turnover of around ¥1 billion, which includes product sales (constituting around 70%) and consultation fees paid by both the private sector and government (accounting for approximately 30%).

### **Finding new markets**

The sogo shosha connects with overseas buyers in various ways.

#### *Trade exhibitions*

One of the most efficient ways to connect with overseas buyers is to participate in the many trade exhibitions that the Japanese government arranges internationally. Government supports the SMEs by funding two thirds of their cost to participate in the exhibitions, such as the cost of their exhibition stand. In this equation, the role of the sogo shosha is in the first instance to disseminate information on the trade exhibitions to its clients. It then recruits SMEs to participate, and provides all the relevant services they need to host a successful stand. These services include assistance with preparing their government subsidy application forms, designing and preparing SMEs' stands, handling logistics attached to exhibition participation, and setting up and stocking stands. The sogo shosha also provides translation services (X, 2018).

The organisation derives its income from levying supporting fees to the participating SMEs. This occurs via two mechanisms: Where the sogo shosha is granted exclusive rights to promote and sell an SME's products in the particular market, the participation costs are split equally between the sogo shosha and the particular SME. Alternatively, should there be no exclusive arrangement, the SME covers the full cost of participation, and the sogo shosha is paid a supporting fee, which includes the

management fees it levies and the travel, accommodation, translation and management fees it incurs (X, 2018).

#### *Own trading*

Another way in which the organisation assists SMEs in opening up international markets is by engaging in its own trading. In this instance, it would buy a product from the SME, add its own commission, and then sell the product on to the international markets through its own networks. Each trade is approached on a transaction-by-transaction basis (X, 2018).

In these trading endeavours, the sogo shosha also receives assistance from the Japanese government. The assistance includes information on markets, and supporting funds. For example, should the organisation have identified a specific country as a potential market and wish to do marketing research to assess its potential, it develops a project plan to present to government. Government adjudicates the proposal and, if approved, makes a non-refundable grant available to the sogo shosha to cover the marketing research expenditure. This includes the costs attached to exploring the market, such as travel expenses to visit the country so as to identify potential competitors, the competitors' product price, quality and shelf life, and customer demands. The government grant is limited to a maximum of 50% of the costs. The remaining costs, including the sogo shosha's management fees, are borne by the SME on whose behalf the sogo shosha is seeking new markets. In addition, the grant may cover some of the costs associated with product promotion in the new market, such as newspaper advertisements, producing short social media videos, and developing local websites (X, 2018).

#### *Website*

Finally, the sogo shosha also hosts its own comprehensive website, where it displays the leading and potentially successful products of the SMEs with whom it has marketing contracts in place. Orders generated through the website are channelled through the sogo shosha, for which commission is levied (X, 2018).

### **Promoting export sales**

The typical start-to-finish process followed by the organisation when promoting a product on behalf of an SME is as follows (X, 2018):

- The enterprise (client) provides the sogo shosha with the product information and price list.
- This information is then forwarded to the sogo shosha's "buyers list", which contains the contact information of over 2 000 importers in 21 countries, 64 of whom are very active, premium buyers ordering by the container.
- Orders received are forwarded to the sogo shosha for processing. The client prepares the product and dispatches it to the sogo shosha's warehouse, where it is held on the seller's behalf.
- From here, the sogo shosha manages all the exportation processes, logistics and regulatory matters. The goods are only released once the overseas buyer has paid the sogo shosha in full, whether by means of electronic transfer or letter of credit. Therefore, neither the sogo shosha nor its client carries financial risk.

The process works both ways. In the interview, Mr X (2018) cited the example of a well-known cookie brand that is produced by a Japanese enterprise and is distributed by the container load via the 7-Eleven convenience outlets in Hong Kong. In other instances, products are designed by an overseas enterprise, which then requests the sogo shosha to source a Japanese enterprise to manufacture it on their behalf. The procedural, logistical and financial principles remain the same.

The sogo shosha does not accept all products presented to it. Products are subjected to a careful selection process. The client needs to provide full product information and an ingredients list (to verify that the product does not contain banned or prohibited substances for exportation), and the price is also benchmarked. Based on this, the sogo shosha then either accepts or rejects the product (X, 2018). Should the product be rejected, the sogo shosha may agree to assist the SME on a consultancy and advisory basis to improve the product in order to make it export-ready. To this end, the producer enters into an "overseas cultivation project agreement" with the sogo shosha (X, 2018), which involves the following process:

- To determine whether it will be able to collaborate with the producer, the sogo shosha invites the SME to a hearing, where the SME is afforded the opportunity to present itself, its product as well as its intentions and available budget to make the product export-ready. Alternatively, this occurs through a site visit to the premises of the SME. This initial consultation is done at own risk of the sogo shosha.
- Should potential for collaboration be determined, the sogo shosha will calculate – based on the producer’s available budget for readying the product for export – what level of support it can provide. For this work, it will levy consultancy and advisory fees.
- To develop the enterprise’s export capacity and the export-readiness of its product, the enterprise may apply for a government “advisory support” grant. While the sogo shosha can assist the producer in completing the application for this grant, the support is paid directly to the enterprise and not through the sogo shosha (X, 2018).

### **Developing SME export capacity**

In addition to the above, the sogo shosha interviewed has been contracted by the Japanese government to provide expert consultancy and advisory services to government-approved SMEs so as to develop their export capacity under the banner of the Overseas Business Development Project Programme. The current fee is approximately ¥500 000 per month per expert and is conditional on the assigned expert meeting with the companies at least 50 times per annum. Considerable follow-up work is also done in between meetings. In addition to the consultation fees, government covers the costs of business trips (travel, accommodation, etc.) (X, 2018).

This sogo shosha has two experts, each of whom typically services around 15 companies a year. The duration of the assistance rendered and the number of meetings held differ from one company to the next, depending on their level of development (X, 2018).

Considering that less than 10% of all the products presented to the sogo shosha successfully enter the export market, care is taken to apply expert knowledge to only those products that the sogo shosha itself is comfortable promoting. Products are

meticulously selected to avoid the expense of time, effort and resources on promoting products that are not export-ready. Even so, of these carefully selected products, at least 30% still prove unsuccessful (X, 2018).

In summary, many SMEs have quality products ready for export, but lack the capacity, knowledge and expertise to successfully enter the market. They need guidance and assistance to do so. Japan has a reputation for successfully developing its international trade. Part of this success lies in the use of GTCs to develop export markets, and even conduct the export functions on behalf of SMEs. The GTC, or sogo shosha, interviewed shed much light on the inner functioning of the GTCs of Japan. They provide a turnkey solution for SMEs wishing to sell their products overseas. These services assist in preparing the SMEs for the export market, promoting their products abroad, and managing the full spectrum of logistical and regulatory matters attached to exporting. The main purpose of the sogo shosha, however, is to undertake its own trading. Therefore, SMEs making use of its services need not concern themselves with the complexities of international trade, but can rather focus on their core function of manufacturing.

The private-sector nature of the Japanese sogo shosha model has proven particularly successful, in that GTCs tend to be more agile, flexible and adaptable than the generally slower-moving and legislatively restricted entities of government (X, 2018).

Particular SME export needs served by the GTC are as follows:

- Grants to SMEs to facilitate their participation in international exhibitions, e.g. national pavilions or private initiatives
- Provision of government-sourced and researched international market information, e.g. trade statistics
- Grants to SMEs for investigating and exploring potential new exporting markets, e.g. in-situ exploratory visits to the identified markets
- Financial support for marketing products abroad, e.g. media advertisements and production of videos and websites for social media marketing
- Advisory support grants to SMEs, e.g. to engage experts in assisting the enterprise to develop export-ready products and capacity

- Government contracting of experts, e.g. to assign consultants to SMEs to assist them in developing their products and export-readiness.

### **6.3 German precision**

The literature review performed for this study made mention of the German government's "specialised export-sector-focused promotion activities". It also highlighted the role of the German chambers of commerce in that country's trade and investment promotion activities. A study visit to the Deutscher Industrie- und Handelskammertag (DIHK) (Association of German Chambers of Commerce and Industry) revealed two mechanisms applied for purposes of trade and investment promotion, namely the specialised export-sector-focused promotion activities cited above, and the German Chambers Abroad Network. Both involve a partnership approach between the private-sector chambers of commerce and government. The details associated with each follow below.

#### **6.3.1 Specialised export-sector-focused promotion activities**

Reflecting on the state of SME promotion internationally, the German Federal Ministry of Economic Affairs and Energy (previously known as the Ministry of Economics and Technology) realised that new instruments were required to better promote SMEs abroad. For this reason, the traditional programmes of trade delegation visits abroad and attendance of international trade exhibitions organised at both federal and state level are now supplemented with a more hands-on approach to the development of new business opportunities. This, according to the DIHK, has resulted in a more robust export energy (Wenzel, 2018).

The new augmentative measures are a federal government-funded export initiative programme overseen by the Ministry of Economic Affairs and Energy. Rather than an institution, it is structured as a programme led by a programme head and a small secretariat. The export initiative programme is implemented in collaboration with existing associations and chambers, thus also constituting an integral part of the work of the German Chambers Abroad Network. This is further discussed in paragraph 6.3.2 below (Wenzel, 2018).

## **Application of the programme**

During the interview, Wenzel used Ghana as a hypothetical example of how the DIHK would apply the programme.

Through focused desktop research, it may be discovered that Ghana is committed to developing solar power and is looking for partners to implement solar power projects. Germany has a number of business associations specifically focusing on the solar industry, and some business chambers also have solar energy as a focus area. The Delegation of German Industry and Commerce in Ghana, a German chamber abroad (hereinafter “the Delegation”), then partners together with those chambers based in Germany to prepare a proposal for the German government to fund a set of suggested activities in the field of solar power (Wenzel, 2018). The proposal, which is submitted via the German business chambers, may be for the funding of visits by German solar energy companies to Ghana and/or visits by Ghanaian decision-makers, politicians, higher-level technical policymakers and businesspeople to Germany on “exposure trips” to gain insight into the industry, its capabilities and level of technological advancement. Ultimately, therefore, the funding requests to government depend on what the chambers would want to see organised as part of what could for example be termed the “Ghana programme for the export initiative: Energy” (Wenzel, 2018).

If approved, government would proceed to fund the programme activities proposed by the Delegation, the German solar industry associations and/or any other business associations engaged in the partnership. While funding may also extend to German companies forming part of the programme, Wenzel did emphasise that such funding would only ever constitute co-funding or subsidies. Companies remain responsible for their own overall travel, accommodation and subsistence costs, although they could apply for the prescribed government subsidy to part-fund the expenses (Wenzel, 2018).

The example above illustrates the programme’s application in the field of renewable energy, but is similarly applied to various other areas as well. For instance, Wenzel (2018) referred to the “German Water Partnership”, which is aimed at promoting the German water industry, and the “German Food Partnership” for the agricultural industry. The latter, which is attached to the Ministry of Economic Cooperation and Development, has a specific development agenda to “sustainably feed the world”

(Wenzel, 2018). The initiative enables the development of business cases for German SMEs in the agricultural industry value chain, and specifically focuses on developing countries (Wenzel, 2018).

Returning to the Ghanaian example as illustration, the German Delegation in Ghana may identify an existing local farming operation with potential, but in need of technological and skills enhancement. The Delegation would then introduce a German enterprise for the potential identification of a business opportunity. This, for example, may take the form of a joint venture aimed at optimising and scaling-up the farming project and could include the introduction of some primary agricultural processing in Ghana, with processed products being shipped to Germany for final finishing (Wenzel, 2018).

### **Operational and funding process**

Wenzel stressed that the programme involved no monopoly on the implementation of ideas, and that all the different business associations, business chambers and German chambers abroad could participate. These organisations would typically call for suggestions from amongst their members, which would then be developed into proposals for the funding of initiatives and activities. These funding proposals are lodged with the relevant ministry, for consideration by a selection committee that is appointed by the ministry, comprising also of stakeholders from private business. The selection committee makes its determination on an annual basis, prior to the commencement of the next financial year (Wenzel, 2018).

The diagram below (Figure 6.2) illustrates the operational and funding process of the specialised export-sector-focused promotion programme:

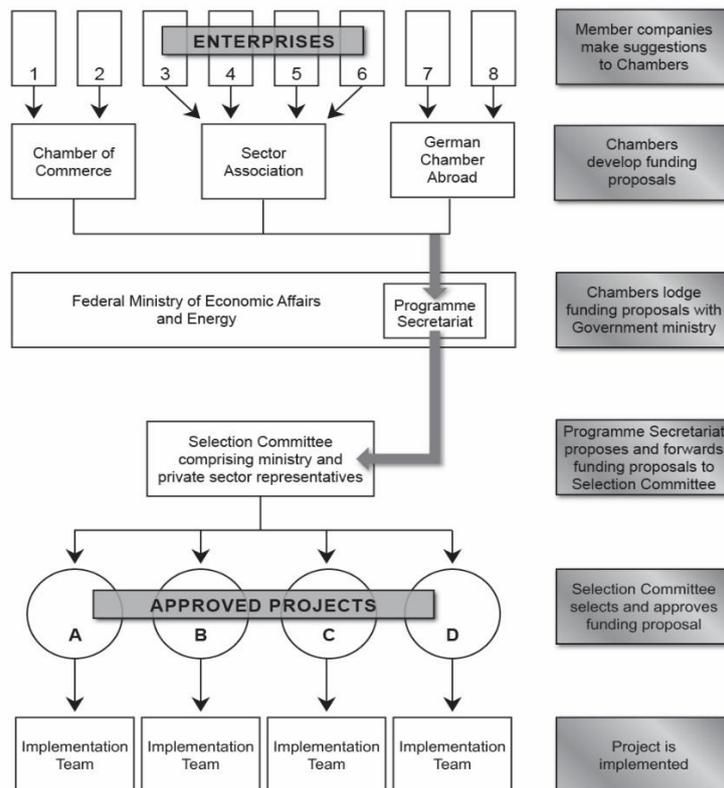


Figure 6.2: The funding and operational process of the specialised export-sector-focused promotion programme (Author, 2018; verified by Wenzel)

As mentioned earlier, funding proposals can assume different formats, including German company visits to the potential business opportunity abroad, or so-called exposure visits by the foreign decision-makers to Germany. In the Ghanaian renewable-energy example, for instance, this affords German enterprises the opportunity to demonstrate and explain to the Ghanaian delegation what the transition to renewable energy requires in practice, and the lessons Germany has already learnt. The visiting decision-makers, in turn, have the opportunity to draw their own conclusions as to whether the German technology and products can be adapted to Ghanaian circumstances. In this way, possible solutions may be identified, which the Ghanaians could apply in partnership with the German enterprises to meet their specific domestic needs (Wenzel, 2018).

### **Keeping it targeted**

An important distinguishing feature of this approach is its targeted nature. The number of visiting companies is for example restricted to five or six, as the end goal is not

broad-spectrum participation, but the development of specialist, individual business cases. The “real project scheme” behind the initiative is for these companies to accompany the chambers and participate in developing the market. The programme is also specifically aimed at SMEs, as large corporates generally do not need this type of assistance (Wenzel, 2018).

An added benefit of keeping these sector-specific delegations small is that this allows for a larger number of expeditions abroad compared to, for example, the traditional multidiscipline trade missions. Wenzel (2018) estimates that a minimum of 100 to 150 such missions are undertaken annually. The project-specific nature of the visits also tends to yield higher success rates.

Also noteworthy is that the potential partner companies are identified by the German business associations and chambers, and not government. This ensures that the identified partners have the appropriate abilities, know-how and financial means to fulfil such a role (Wenzel, 2018).

To summarise, the German model of ‘specialised export-sector-focused promotion activities’ is aimed at ensuring a targeted and focused approach to export promotion. It avoids the more unpredictable outcomes associated with traditional trade exhibition participation by conducting in-depth market research, pinpointing business opportunities, applying stringent enterprise selection criteria, and customising programmes aimed at matching German enterprises with the business opportunities identified abroad.

### **6.3.2 German Chambers Abroad Network**

The second German export promotion mechanism is the German Chambers Abroad Network. The network, which is overseen and organised by DIHK, serves as the umbrella body for the country’s chambers abroad. As well-established network with a history of over 125 years, it comprises 140 offices in 92 countries across the globe. Still, it continues to grow, with the most recent additions being German chambers opened in Sri Lanka in 2017 and Cuba in 2018 (Wenzel, 2018).

#### **Funding and reporting model**

The network is a public-private partnership. For organising the German chambers abroad, DIHK receives an annual financial contribution from the federal government,

which currently amounts to approximately €45 million. The contribution is made available in terms of an annual appropriation by the German parliament within a framework of longer-term obligations. DIHK is free to use the subsidy in any manner it deems appropriate, within the parameters of German law (Wenzel, 2018).

DIHK's budget for applying the government contribution is aimed at funding its Berlin headquarters as well as the network of German chambers across the globe. Each individual German chamber abroad is required to present an annual business plan to DIHK, and negotiates their co-funding allocation based on their ability to fund themselves. In practice, therefore, a number of German chambers abroad are fully self-sufficient, such as those in Sweden, Switzerland and many others in Europe. These self-funding chambers derive their funding from membership subscriptions and contributions from their member companies, fees charged for services, amongst others. In terms of the global budget of all German chambers abroad, 80% of the budget is self-funded, while 20% is contributed by government (Wenzel, 2018). Other German chambers, notably those in developing countries, find it more challenging to fund themselves. In Ghana, for example, the chamber has only approximately 30 member companies. In their case, the rate of funding would be in the order of 15-20% self-funding and 80-85% government funding (Wenzel, 2018).

DIHK channels the government funding to the individual German chambers abroad based on their respective business plans, the budget available, and the government allocation. The composition of the funding is decided by DIHK and the individual chambers, not by government. However, DIHK is required to submit annual reports to government through the Ministry of Economic Affairs and Energy. To this end, it drafts a budget consolidating all the different budgets globally, including an indication of what funding went to which chamber. DIHK also prepares a consolidated set of financial results as at the end of each financial year (Wenzel, 2018). The public funding and reporting model of the German Chambers Abroad Network, as overseen by DIHK, is illustrated in Figure 6.3 below.

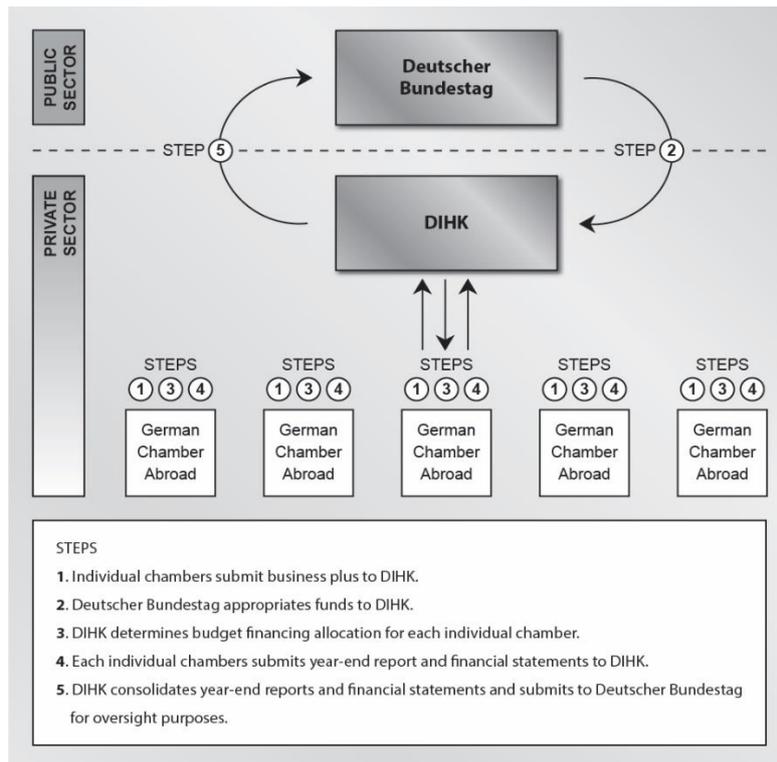


Figure 6.3: DIHK public funding and reporting model (Author, 2018; verified by Wenzel)

The consolidation and reporting process enables DIHK to ascertain where individual chambers have improved their self-sufficiency, in which instance their government funding would be reduced in the subsequent year. The rationale behind this funding model is to assist German industry to secure a foothold in potential markets where German industry does not have a noticeable presence. The funding priority, therefore, is to help create and develop new German chambers abroad in order to broaden the reach of German industry versus rewarding chambers that are already well established, where such government funding would not necessarily materially expand German industry's global influence (Wenzel, 2018).

The key determinants in deciding on government funding priorities include the trade and investment relationships between Germany and its trading partners, the trade volume and German investment stock in the countries concerned, and the number of German companies already present in the particular market. In countries where trading and investment volumes are low and where only a small number of German companies are present on the ground, DIHK together with government would invest to strengthen the future global presence of German industry (Wenzel, 2018).

Government funding allocated to German chambers abroad may be used for the full spectrum of the chambers' activities, whether operational, logistical, projects or programmes. In return, DIHK expects the individual German chamber to grow its activities and foothold, and systematically improve its self-sufficiency. To achieve this, DIHK and the individual chambers jointly agree on targets aimed at steadily improving an increase in their share of self-funding (Wenzel, 2018).

According to Wenzel (2018), this unique German funding structure facilitates a vast network of German industry representation worldwide, at a relatively low cost to government. The current annual government contribution of €45 million, which allows the network to operate in 92 countries, means that government invests, on average, €500 000 per country for trade and investment promotion purposes (Wenzel, 2018).

### **Tasks and functions**

The tasks of German chambers abroad are to:

- assist specifically SMEs to enter the international market;
- officially represent Germany in the host countries, for instance serving as primary contact point for organising, together with the embassy, business programmes to support official political visits as part of trade delegations;
- undertake trade and investment promotion campaigns; and
- represent German business at a political level, a prime example of which was the Southern Africa German Chamber of Commerce and Industry's key role in representing the concerns of German enterprises in South Africa after the recent unilateral termination of the bilateral investment agreement between South Africa and Germany (Wenzel, 2018).

The role of the German chambers abroad, therefore, is twofold, namely to promote trade and investment, and to voice the position of German enterprises, both to the governments of the countries in which they operate and back into Germany (Wenzel, 2018). As such, the German Chambers Abroad Network does more than merely promote German product exports abroad, it also endeavours to increase the attractiveness of German enterprises among local partners by embarking on activities with local business. Naturally, this depends on the development stage of the host

country's economy as well as of the enterprises concerned and is aimed at reducing Germany's huge export surpluses to achieve a more balanced trade account.

In the South African context, for example, the Southern Africa German Chamber of Commerce and Industry partnered with the South African Department of Trade and Industry in a 2017 pilot project to have a small delegation of medium-sized companies in the electronics sector meet with potential buyers in Germany to integrate South African products within the German value chain (Wenzel, 2018).

In addition, DIHK and a German business association comprising buying, sourcing and logistics companies have embarked on a German-South African government project to better target and assist South African companies to become involved in the global manufacturing chains of German enterprises. The project is aimed at South African medium-sized enterprises that are at a sufficient stage of technological advancement and export-readiness to engage in global manufacturing chains of German origin. For the pilot, the South African government co-funded the travel costs and selected the participating South African enterprises. The German government, in turn, over and above its annual contribution to DIHK, also compensated the Southern African German Chamber of Commerce and Industry for organising the project. DIHK is preparing to expand the initiative, being a valuable vehicle to balance trade and grow their trade partners (Wenzel, 2018).

As the German government requires public value to be created from the spending of taxpayer funds, the success and outcomes of all DIHK programmes are evaluated on an ongoing basis. To this end, DIHK has strong mechanisms in place to regularly assess the progress made by companies that have participated in its programmes and those of its network of German chambers abroad.

In sum, then, the German Chambers Abroad Network utilises existing, well-established structures to promote exports and grow trade. A public-private partnership ensures that government spending goes much further than would have been the case if government had to carry this responsibility on its own. Both efficiency and quantum of activity is improved by putting the responsibility for trade opportunity identification in the hands of the German chambers, which are spread across the globe and have a deeper understanding of local economies than could be expected from officials located in Berlin.

## **6.4 Chinese pragmatism**

Over the past three decades, the Chinese economy has displayed remarkable growth trends. Over this period, it has moved from being largely closed to a major global player (OECD, 2010:166). In particular, its entry into the international market has been phenomenal, earning the Chinese the title of factory of the world (Canton, 2015). Of note is their practical approach to business in general, and to export promotion in particular.

For this study, two Chinese models were examined by means of in-situ visits and interviews. These are the SME Service Centre of Wantran and the dual Dongguan Commodity South Africa Display Centre/South Africa Commodity Dongguan Display Centre.

### **6.4.1 Embracing the e-commerce era: SME Service Centre of Wantran**

#### **Ecosystem of entrepreneurship incubation**

Tucked away in the Zhongshan Torch Hi-Tech Industrial Development Zone of Zhongshan City in Huangpu Town (Guangdong Province) is the SME Service Centre of Wantran (hereinafter “the Centre”). The facility is a one-stop service centre for aspiring entrepreneurs who have developed a product or service, and have the resourcefulness to start an enterprise, but need guidance and assistance to successfully commercialise their ideas (Huang, 2018).

Accordingly, the Centre’s vast range of services encompasses every aspect of operating an enterprise. By enrolling at the Centre, enterprises gain access to the expertise of the approximately 30 companies located in the precinct. They offer administrative assistance with registering and setting up an enterprise as a legal entity. In addition, they help enterprises apply for funding and manage their finances and taxes. Their services also include environmental protection and health compliance, assisting enterprises to obtain the necessary health certificates and permits applicable to their particular products (Huang, 2018).

Moreover, the Centre assists enterprises in their marketing efforts, both in terms of advertising as well as product packaging and presentation. The fully-equipped recording, photography and videography studio located in the Centre can produce hi-specification photos and/or videos to be used in print or television/radio

advertisements. Graphic designers are also at hand to assist with the development of marketing materials such as advertisements, brochures, product instructions materials, etc. (Huang, 2018).

Another component of the Centre's offering is the development of enterprises' sales capabilities. For example, one of the companies located in the Centre trains students in marketing and carrying out online and e-commerce sales. Once trained, these students can be deployed to individual SMEs to set up the enterprises' e-commerce platforms. The same service also provides a conduit for supplying trained e-commerce marketers to the Centre's own e-commerce platform. This platform markets and manages the internet sales of a large number of independent enterprises that prefer to outsource their e-commerce to specialists rather than to develop an in-house capacity (Huang, 2018). Together, therefore, the companies forming part of the Centre and providing these various services form a holistic ecosystem of entrepreneurship incubation (Huang, 2018).

Enterprises subscribing to the Centre's management consulting and advisory services can opt for one of two approaches: They can choose to outsource selected activities to the specialist companies in the Centre, who will then perform those particular activities on behalf of the contracting enterprises. Alternatively, the Centre can train employees and provide enterprises with skilled staff and/or advice for any one or all of the elements needed to successfully operate their business (Huang, 2018). As such, the Centre performs a number of societal functions. It acts as a service centre for small companies in town, is a centre of excellence for entrepreneurship, provides an entrepreneurship incubation space, renders a talent identification and development service, helps the city deliver on its mass entrepreneurship programme, and assists in developing new industries (Huang, 2018).

### **Functioning and funding**

The Centre was conceptualised in response to the multitude of government policies aimed at supporting and developing enterprises. It serves as a user-friendly, streamlined mechanism to unlock the benefits associated with policy compliance for businesses lacking the knowledge, capacity or expertise to do so themselves.

The Centre was established by the private-sector Association of Management and Consulting Companies (Huang, 2018). This purely private-sector-driven approach was

chosen because both government and the enterprises preferred the Centre to operate in line with market principles. This would supposedly allow the Centre to be more agile, flexible and responsive to market needs and conditions (Huang, 2018).

Funding is derived from various sources. The Centre's management company receives income from renting out space in the facility to the various specialist companies that provide the incubation and outsourcing services. Furthermore, the management company (itself a specialist service provider) and the other specialist companies in the Centre levy fees for services rendered to SMEs. They also earn commissions and margins on both online and offline sales. The provincial government of Guangdong, the City of Zhongshan and, to a lesser extent, the local Town of Huangpu award subsidies and grants to the Centre (approximately ¥50 000 per annum), and also provide indirect support through the hosting of trade events, in which the Centre participates (Huang, 2018).

Whilst the main focus is on SMEs and on the manufacturing sector, larger enterprises and other sectors are not excluded (Huang, 2018). Drawing on the expert services of the Centre, an individual enterprise may decide whether it wishes the Centre to advise and train management and staff to perform specialised functions in-house, or whether it prefers to outsource specialised functions to the Centre, thus enabling the enterprise to focus on its core business. The workings of the centre are illustrated in Figure 6.4 below.

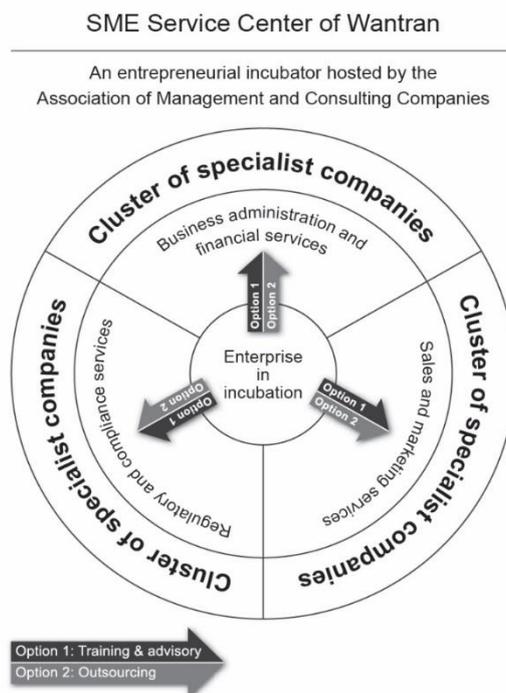


Figure 6.4: Functioning of the SME Service Centre of Wantran (Author, 2018; verified by Huang)

The procedure for introducing products to the Centre's e-commerce platform is straightforward. Any enterprise may submit to the Centre samples of the products it intends introducing for sale through the e-commerce platform. If deemed marketable, market-ready and viable, and meets the required safety and health standards, the product will be listed. Smaller products seem to perform best, including small household appliances (such as kettles and toasters), cosmetics, wine and health foods. In selecting the products to be marketed via the Centre's e-commerce platform, compliance with quality and safety standards is the top consideration.

More than 30% of products introduced through the Centre's e-commerce platform have been successfully marketed (Huang, 2018). Whereas some products sell well throughout the year, others sell in specific seasons, such as during the Chinese New Year, or amongst specific target groups. With regard to the remaining 70% of the products, experience has shown that although the products may not be an immediate success, some do tend to become successful over time. To assist SMEs through the experimental phase of product introduction, the Centre does in some instances agree to market the product based on photos without holding actual stock at its warehouse, with mechanisms in place to courier the product from the originating manufacturer to the buyer (Huang, 2018).

### **'Helping the small go global'**

Two observations with regard to the SME Service Centre of Wantran may be of particular value in considering potential alternative techniques for SME export promotion.

The greater part of the sales generated through the Centre's e-commerce platform comprise smaller-quantity orders. This proves especially beneficial to smaller enterprises, who may be challenged to deliver large volumes of products for storage at the Centre's warehousing facility due to production and/or capital constraints (Huang, 2018). Firstly, therefore, this is a solution tailored for the needs of SMEs.

At the same time, however, the Centre's services are not restricted to Chinese enterprises, but extend to international enterprises also. Thus, in the second instance, it is a solution enabling cross-border trade. The Centre's e-commerce platform has, for example, already listed cosmetics from Japan and health food products from Australia, although no South African products are currently marketed through the platform (Huang, 2018). In fact, the Centre has a mandate to further develop the range of international products it introduces to the broader Chinese market, whether through offline or online sales. Offline sales are executed by means of direct interaction, or through matchmaking events organised by the Centre, government departments or other chambers of commerce. For online sales, in turn, the Centre has designed processes that assist foreign enterprises with the trouble-free introduction of their products into the domestic market (Huang, 2018). This trouble-free introduction of products by foreign enterprises entails the following eight steps:

- The foreign enterprise forwards to the Centre samples of the product it intends to list on the Centre's e-commerce platform.
- Should the product pass the Centre's market viability evaluation and meet the Centre's health and quality standards, a contract is entered into between the Centre and the foreign enterprise, fixing the price that the Centre will pay per item.
- The foreign enterprise sends stock on consignment to be stored in the Centre's bonded warehouse.
- The Centre ensures administrative and regulatory compliance.

- The product is then marketed and sold through the Centre's e-commerce platform. The Centre will add its own margin to the negotiated price, which margin may or may not be capped in the contract between the foreign enterprise and the Centre.
- The sold product is drawn from the bonded warehouse, with the Centre managing the customs clearance processes.
- Upon receiving payment, the product is couriered to the buyer.
- Upon sale of the product, the Centre transfers to the foreign enterprise the negotiated contractual amount per item (Huang, 2018).

At contract stage, the Centre is open to negotiation with regard to which entity – the Centre or the foreign enterprise – will be responsible for funding transportation costs and customs duties. Naturally, this would affect the price that the Centre would be willing to pay per item (Huang, 2018).

Interestingly also, from a discussion with the senior director of e-commerce giant Alibaba's Globalisation Strategic Planning Office, it would appear that Alibaba has similar procedures in place as those of the Centre discussed above (Sami, 2018).

By relieving product manufacturers of the administrative burden associated with export sales, the SME Service Centre of Wantran enables the SME exporter to focus on its core business of producing its products. This obviates the need for the exporter to, at least in its early development phase, have its own extensive in-house export capacity, as the Centre contractually performs these functions on the exporter's behalf. In addition, by accepting smaller quantities of product on a consignment basis, it holds a further material benefit for SME manufacturers and exporters, reducing the risk of tying up scarce capital in large quantities of stock.

#### **6.4.2 Dongguan Commodity South Africa Display Centre/South Africa Commodity Dongguan Display Centre**

The Dongguan Commodity South Africa Display Centre (SACC)/South Africa Commodity Dongguan Display Centre (DGCC) (or "the centre(s)") is a private sector-driven twin-platform initiative. It entails the setting up of a permanent display centre (or showroom) in the city of Dongguan, where South African-manufactured products are to be exhibited, and the establishment of a similar permanent display centre (or showroom) in the city of Durban, South Africa, where Chinese-manufactured products

are to be exhibited (Yan, 2018). Currently, a new permanent display centre is being constructed in Dongguan, and the centre in Durban has been operational for some time. Moreover, an adjustment to the initial concept has seen centres opening up in Polokwane, Pretoria and Johannesburg also (Yan, 2018). More than fifty companies from Dongguan are currently displaying their products in the SACC, while some fifteen companies have a presence in the DGCC. An interview was conducted with the director of the China Dongguan Economic and Trade Representative Office in Southern Africa to gain an in-depth understanding of the model's functioning.

### **Functioning of the model**

The model was conceptualised by the Dongguan Africa Industrial Investment Co Ltd and the Dongguan municipality in response to the Chinese-led Belt and Road Initiative (BRI), which is encouraging Chinese enterprises to go global and develop economic ties with the countries forming part of the BRI. This specific project is aimed at developing the relationship between China and South Africa, further strengthening the foundations laid as fellow members of BRICS. Should the project prove successful, the model could be extended to other Southern African nations, including Mozambique, Namibia and South Africa's other neighbours (Yan, 2018).

A public-private model was specifically selected to access the benefits associated with each sphere: By partnering with government, government support is secured, which implies assistance with regulatory compliance as well as access to various state incentives. The involvement of the private sector, in turn, enables more dynamic and flexible decision-making (Yan, 2018).

The corporate structure is led by Dongguan Global Co Ltd, a company incorporated in China and with fifty years' experience in importing and exporting. In turn, Dongguan Africa Pty Ltd is a joint venture between Dongguan Global Co Ltd and a South African partner. Dongguan Africa is the proprietor of the display centres in Durban and Dongguan (Yan, 2018). The SACC sub-centres in Polokwane, Pretoria and Johannesburg are not owned by Dongguan Africa, but are designated as representative centres of SACC (Yan, 2018).

### **One-stop service providing scale and convenience**

More than mere exhibition venues, the centres serve as a bridge between government and business, building mutual trust. The centres provide and disseminate information on various topics, including on business culture, which promotes understanding and business efficiency between enterprises from the two countries. They also assist with regulatory matters, such as the registration of companies and trademarks, customs and other regulatory affairs. Future plans include the setting up of an e-commerce platform. Ultimately, the intention is to provide a one-stop service for enterprises wishing to export/import to and from South Africa and China (Yan, 2018).

A material benefit attached to the initiative is that of scale. With reference to the SACC, for instance, Yan (2018) argues that should the fifty Chinese companies displaying in the centre had to attempt to enter the South African market on their own – without SACC assistance – each of the companies would need to send representatives to South Africa to promote their products. Now, however, the SACC serves as their representative, promoting their products in the local market, relieving them of the difficulties attached to appointing representatives abroad. This eliminates costs such as transportation, accommodation and living expenses, thereby freeing up resources for the enterprises to concentrate on their core business (Yan, 2018).

In addition, enterprises enjoy the convenience of an arrangement that could be described as ‘pay on demand’. Exhibitors are not charged rental for the display space in the centres. They are also not compelled to sell their products via the centres or to make use of the centres’ specialist business services. However, they are charged fees and/or commissions should they choose to do so – as many seem to do. In fact, experience at the SACC has shown that since many of the Chinese exhibitors do not necessarily understand the South African business procedures and culture, and may have concerns relating to customer reliability, product quality and/or service, “they prefer to use the services of the centre” (Yan, 2018).

### **Income streams**

An important income stream for the centres is their own in-house trading, the profits of which help fund the centres. Yan (2018) referred to the SACC’s furniture trade and the DGCC’s trade in wine, seafood and timber as sources of revenue. Other revenue

streams include the organising of trade exchanges, seminars and participation in trade exhibitions, for which certain government incentives could be accessed (Yan 2018).

In addition to these commercially orientated income streams, the Dongguan municipal government makes available a small annual grant to the initiative in the form of providing free exhibition space. Although the Guangdong government does not currently provide financial assistance to the initiative, it has officially endorsed the SACC and the Guangdong Overseas Commodity Display Centre, which is one of four worldwide. (Yan, 2018). Noticeably absent from the equation is assistance from the South African government, which at this stage does not provide any support to the South African enterprises displaying their products in the DGCC. It is believed that the initiative could be given further impetus by involving the various spheres of South African government. This could entail efforts to secure additional South African enterprises to display their products in the DGCC and (possibly) access to EMIA support and/or a small grant towards hosting costs (Yan, 2018).

The existing government grants and incentives are not sufficient to cover the costs of the initiative. However, even though the initiative is in its infancy (having been launched approximately three years ago), a positive sign is that it yields surplus income through DGCC and SACC's own commodity trading efforts.

### **Evidence of success**

In terms of the model's effectiveness, Yan (2018) pointed to the two-way nature of the centres' trading initiatives, which were proving successful in sales to and from China. Commodities that have yielded good results included wine, seafood, fruit and timber from South Africa to China, and office furniture, other furniture, building materials and automobile parts from China to South Africa (Yan, 2018).

The centres do not get involved in the details of deal-making and/or contracting between buyers and sellers, but provide a pure introductory (matchmaking) service. Should future difficulties arise, specialist information or services be required or conflict resolution be needed, the centres may provide such services in exchange for a consultancy fee (Yan, 2018). Because they are not involved in transacting between the introduced parties, the centres cannot provide comprehensive statistics as to the success ratio attached to products. Yet Yan (2018) was adamant that the initiative yielded success and cited the following anecdotal evidence to support his claim.

Firstly, he argued, many of the companies that participated in previous exhibitions facilitated by the centres requested to again participate the subsequent year. Secondly, all of the companies that had participated in such exhibitions always sold out the stock they had brought along with them. Thirdly, a number of the enterprises requested information on clearing agents and trademarking, which, according to Yan, would not have been the case had export or import business not materialised (Yan, 2018).

Importantly, it did appear from the interview with Yan (2018) that the current success could be mainly ascribed to medium to larger enterprises. This was the case on both the South African and Chinese sides. Yan (2018) attributed this to these enterprises having the necessary experience in and capital for exporting/importing. He insisted, however, that with the support offered by initiatives such as the SACC and GDCC, positive scope did exist for SMEs to join in and succeed (Yan, 2018).



Figure 6.5: The display centres under construction in Dongguan (left) and in operation in Durban (right). (Source: Yan, 2018)

In essence, the Dongguan Commodity South Africa Display Centre/South Africa Commodity Dongguan Display Centre provides a twin-centre platform for connecting importers and exporters from China and South Africa. This is done by providing permanent display centres in both countries, where enterprises can showcase their products. This enables enterprises to access the benefits of scale by eliminating the need for individual companies to embark on their own, costly market identification and development activities. It also creates a focal point for enterprises from both countries to enquire about opportunities, be connected with potential business partners, and be introduced to the full array of services required in the export/import chain.

## 6.5 Conclusion

The objective of this chapter was to identify and explore alternative export promotion techniques to DSBD's current facilitation of SME participation at the national pavilions hosted by TISA at exhibitions abroad. The intention with this section was not to preempt the outcome of the study on the effectiveness of DSBD's current programme by assuming that alternative mechanisms would indeed be required. Instead, the objective was to prepare a menu of alternative approaches successfully followed elsewhere, which DSBD could consider as a supplement to or, if need be, substitute for their current offering.

A desktop study and personal experience revealed at least six alternatives. In each instance, the documentary evidence and experiential discoveries were followed up with in-situ visits and interviews to explore the various alternatives' practical applicability and relevance to SMEs.

The alternatives described in this chapter in no way purport to represent the full spectrum of alternative export promotion mechanisms available. However, the six methods discussed are varied enough, both in terms of methodology and regional application, to provide fertile ground for further exploration.

The first alternative – subcontracting – develops an ecosystem between a large enterprise and a range of SMEs, with the latter supplying component parts to the former, being the proprietor of the end product. It offers the benefit of indirectly introducing SME products into the international market, without the SMEs having to face the challenges and constraints associated with the export market themselves.

The second alternative – trading houses – provides an all-inclusive trading platform offering the full range of services needed to trade both locally and internationally. Benefits for SMEs include access to specialised expertise, minimised risk, reduced costs through economies of scale, the more efficient use of capital, and a multitude of downstream and upstream opportunities for enterprises participating in the export chain.

The third alternative – specialised export-sector-focused promotion activities – represents a targeted approach to export promotion. Stringently selected enterprises are matched with very specific business opportunities identified abroad, which makes

for a tailor-made approach with more predictable (and mostly successful) outcomes than those associated with blindly aimed participation in trade exhibitions.

The fourth alternative – the public-private partnership approach of the German government, who funds the German Chambers Abroad Network through DIHK – improves efficiency and quantum of activity by charging the German chambers worldwide with the responsibility of identifying trade opportunities. The leverage created through co-funding by government and the private sector ensures that government resources go further.

The fifth alternative – the model represented by the SME Service Centre of Wantran – shifts the export administrative burden from exporters to the Centre, freeing up exporters to focus on their core business of manufacturing. SME manufacturers and exporters enjoy the benefits of reduced risk, being able to supply stock in small quantities, while still breaking through into the international market.

The final alternative – the public-private partnership concept of the Dongguan Commodity South Africa Display Centre/South Africa Commodity Dongguan Display Centre – connects importers and exporters from South Africa and China through a twin-centre platform. Apart from the obvious benefit of space to showcase their products, enterprises also enjoy the benefits of scale, not having to individually embark on market identification and development activities, as well as access to a central point of information and services required in the export/import chain.

Although varied, the alternative export promotion mechanisms discussed in this chapter seem to share certain key themes. They reduce risk for SMEs, offer SMEs access to specialist assistance, and – in many instances – do so through a partnership between government and the private sector. The interpretation of the study findings presented in the next chapter, Chapter 7, will shed more light on whether these considerations may be worthwhile for DSBD to explore in its pursuit of the NDP mandate to promote exports by South African SMEs.

## **Chapter 7: Analysis and discussion of findings**

### **7.1 Introduction**

This chapter sets out to analyse and discuss the findings of the empirical research contained in Chapter 5 and 6 of this thesis.

In Chapter 5, the 20 enterprises selected for this research were examined to track their export growth and the development of their export capabilities since their participation in the TISA-organised national pavilions. Chapter 5 also assessed the enterprises' characteristics against the characteristics of an export-ready SME to establish the applicability of TISA's selection criteria. In the final instance, TISA's criteria were compared to the Pickernell selection criteria to assess the former's effectiveness.

Chapter 6, in turn, identified a number of alternative techniques from other jurisdictions on which DSBD could potentially draw to either supplement or replace their current offering for SME export promotion.

### **7.2 Analysis and discussion of findings relating to export growth**

To determine whether the SMEs that had participated in the TISA-facilitated national pavilions registered positive growth in their export sales during and as a result of their participation in the national pavilions, the cash sales recorded during the national pavilion, sales from orders secured at the national pavilion as well as sales from leads generated at the national pavilions were added together. This is in line with the Measurement 1 as defined in the research design. The average cost incurred by TISA for hosting the particular national pavilion was then deducted from the total sales generated. Where a surplus was recorded, the enterprise was deemed to have been successful in growing its exports as a result of its participation in the national pavilion; conversely, where a deficit was recorded, the enterprise was considered not to have been successful. In this analysis, it was determined that eight of the 20 selected enterprises had registered export growth as a consequence of their participation in the national pavilions. In accordance with the predefined key (Table 5.2), this translated to TISA having achieved reasonable public value through their efforts in this regard.

However, while the aforementioned key enabled a finding as to the number of SMEs that had generated export sales in excess of TISA's facilitation costs, it did not consider the sustainability or quality of those sales. To that end, the quantum of the sales

generated as a result of TISA's efforts were scrutinised. Of the eight enterprises that had registered export growth, the sales of only six could be considered material. For example, as Table 7.1 below shows, Enterprise 10 registered a mere R61 587 in export sales in the three-year period following its participation in the national pavilion, and Enterprise 20 only R115 179. For want of an established standard as to what constitutes material and sustainable export growth, it is suggested that, being less than the cost to host the enterprises at the national pavilion, the aforementioned surpluses can at best be considered marginal.

It is recognised that there might be a time lag, and that it may be possible for trade exports to start long after the exhibition. Yet, as will be illustrated later in the study, the characteristics of the remaining 12 SMEs do not match the characteristics of an export-ready SME, which, in this study, renders this possibility highly unlikely.

Table 7.1: Enterprises registering positive net export sales due to DSBD efforts

Enterprise	Q1	Q2	Q3	Sum (Q1-Q3)	Average cost	Surplus/ (deficit)	Code
2	R15 000	R350 000	R1 000 000	R1 365 000	R88 655	R1 276 345	1
3	0	0	R6 000 000	R6 000 000	R88 655	R5 911 345	1
4	0	R900 000	R2 700 000	R3 600 000	R88 655	R3 511 345	1
5	0	0	R1 000 000	R1 000 000	R88 655	R911 345	1
10	R144 417	0	0	R144 417	R82 830	R61 587	1
12	R170 400	0	R5 794 000	R5 964 400	R341 168	R5 623 232	1
13	R3 550 000	0	R27 360 000	R30 910 000	R341 168	R30 568 832	1
20	0	0	R250 000	R250 000	R134 821	R115 179	1
<b>Total number of enterprises registering export growth</b>							<b>8</b>

(Source: Author, 2018)

Consequently, it is argued that a more realistic interpretation would be that only six enterprises registered material and sustainable exports as a result of TISA's efforts. This leads to a concomitant downgrade of TISA's performance in terms of creating public value through export growth, with the result shifting from the top end of the reasonable-value band to the mid-range.

Similarly, further scrutiny of the enterprises that had registered positive export growth due to own efforts and own costs, and by using the same question set as designed in

section 4.3.1.1, (Table 7.2) revealed that all but two (Enterprise 7 and 15) had generated material export sales over the period of analysis.

Table 7.2: Analysis of enterprises registering positive export growth due to own efforts

Enterprise	Q4	Sum (Q1-Q3)	Q5 (own-effort exports)	Code
1	R55 000 000	0	R55 000 000	1
2	R2 575 000	R1 365 000	R1 210 000	1
3	R10 000 000	R6 000 000	R4 000 000	1
4	R4 964 000	R3 600 000	R1 364 000	1
5	R13 900 000	R1 000 000	R12 900 000	1
7	R60 000	R27 000	R33 000	1
11	R400 000	R30 000	R370 000	1
13	R67 081 600	R30 910 000	R36 171 600	1
14	R70 000 000	0	R70 000 000	1
15	<R200 000 <sup>2</sup>	0	<R200 000	1
16	R18 000 000	0	R18 000 000	1
17	R18 500 000	0	R18 500 000	1
18	R11 500 000	0	R11 500 000	1
19	R43 000 000	0	R43 000 000	1
20	R35 000 000	R250 000	R34 750 000	1
<b>Total number of enterprises registering export growth due to own efforts</b>				<b>15</b>

(Source: Author, 2018)

Note 1: Values were not supplied, but through probing, it was determined that the turnover had been more than R2 million, but significantly less than R47,5 million (thus fitting the definition of a small enterprise), and export sales less than R100 000 per annum. Total sales of the enterprise since participating in the national pavilion have been less than the cost to TISA.

This would therefore reduce the number of successful enterprises in terms of export growth due to own effort from 15 to 13, which is a marginal adjustment. Thus, in terms of the defined scale, the level of success in creating public value remains good.

### 7.3 Analysis and discussion of findings relating to the development of export capacity

To determine whether public value had been added in terms of improving the export capacity of the participating enterprises since their participation in the TISA-organised national pavilions, the enterprises' position pre-mission and post-mission was checked against the list of export-readiness criteria used by Enterprise Ireland (see Figure 4.1). Furthermore, a determination needed to be made as to whether any registered improvement was as a result of DSBD interventions or own efforts. Where DSBD had done follow-up work subsequent to the enterprise's participation in the national pavilion, any improvement was ascribed to DSBD's efforts. Where DSBD had done no follow-up work, any improvement was ascribed to the enterprise's own efforts.

It was found that, in all instances, DSBD had not done any follow-up work. Any improvement in the enterprises' export capacity can therefore be solely described to their own efforts. Table 7.3 below indicates the enterprises' respective levels of improvement in export capacity.

Table 7.3: Analysis of enterprises registering public value added with regard to export capacity development

Enterprise	Pre-mission score	Post-mission score	Improved position	Public value added Y=1, N = 0	DSBD follow-up Y=1, N = 0	DSBD effort	Enterprise effort
1	19	22	3	1	0	0	1
2	13	27	14	1	0	0	1
5	23	24	1	1	0	0	1
7	13	15	2	1	0	0	1
9	8	12	4	1	0	0	1
11	10	20	10	1	0	0	1
12	22	23	1	1	0	0	1
15	14	15	1	1	0	0	1
19	22	23	1	1	0	0	1
20	19	29	10	1	0	0	1
<b>No. of enterprises with public value added</b>				10	0	0	10

(Source: Author, 2018)

Exclusively based on the number of enterprises that had registered an improvement in export capacity, namely ten, albeit due to own efforts, it was found that significant

public value had been added. However, this still does not mean that the individual enterprises had sufficient export capacity. To further explore their level of export-readiness, a further, Likert-type scale was developed (Table 7.4). This new scale measured how many of the enterprises that had joined the TISA-organised national pavilions were export-ready when selected, and how many had become export-ready since their participation. The scale progresses from “No compliance” to “Exceptional compliance”, as illustrated below.

Table 7.4: Level of compliance with criteria for export-ready enterprise

Number of export-ready enterprises	Degree of compliance with criteria for export-ready enterprise
0	No compliance
1 – 5	Some compliance
6 – 10	Significant compliance
11 – 15	Good compliance
16 – 20	Exceptional compliance

(Source: Author, 2018)

What constitutes an export-ready enterprise is a subjective matter. Clearly, the enterprise would have to meet more than 50% of the criteria. The level of subjectivity, however, relates to the upper percentage. This research reflects three upper levels – 50% or 15 criteria, 66,667% or 20 criteria, and 75% or 23 criteria. In the relevant columns, where the enterprise had met the compliance threshold, it was coded 1, and if not, it was coded 0.

Table 7.5: Level of export-readiness compliance pre-mission and post-mission

Enterprise	Pre-mission score	Post-mission score	Number of compliant enterprises at 50%	Number of compliant enterprises at 66%	Number of compliant enterprises at 75%	Number of compliant enterprises at 50%	Number of compliant enterprises at 66%	Number of compliant enterprises at 75%
			Pre-mission			Post-mission		
1	19	22	1	0	0	1	1	0
2	13	27	0	0	0	1	1	1
3	24	24	1	1	1	1	1	1
4	28	28	1	1	1	1	1	1
5	23	24	1	1	1	1	1	1
6	9	9	0	0	0	0	0	0

7	13	15	0	0	0	1	0	0
8	10	10	0	0	0	0	0	0
9	8	12	0	0	0	0	0	0
10	8	8	0	0	0	0	0	0
11	10	20	0	0	0	1	1	0
12	22	23	1	1	0	1	1	1
13	21	20	1	1	0	1	1	0
14	21	21	1	1	0	1	1	0
15	14	15	0	0	0	1	0	0
16	18	18	1	0	0	1	0	0
17	27	25	1	1	1	1	1	1
18	26	26	1	1	1	1	1	1
19	22	23	1	1	0	1	1	1
20	19	29	1	0	0	1	1	1
<b>Number of export-ready enterprises</b>			<b>12</b>	<b>9</b>	<b>5</b>	<b>16</b>	<b>13</b>	<b>9</b>

(Source: Author, 2018)

Applying the scale in Table 7.4 to the results tabulated above, the following conclusions may be drawn.

When setting compliance with at least 50% of the export-readiness criteria as a requirement, TISA's selection of enterprises to participate in the national pavilions (i.e. pre-mission) reflects good compliance. The position changes to exceptional compliance post-mission. When setting compliance with at least 66,667% of the export-readiness criteria as a requirement, TISA's selection of enterprises to participate in the national pavilions (pre-mission) reflects significant compliance, changing to good compliance post-mission. Finally, when setting compliance with at least 75% of the export-readiness criteria as a requirement, TISA's selection of enterprises to participate in the national pavilions (pre-mission) reflects some compliance, which improves to significant compliance post-mission.

In addition, Enterprise Ireland's checklist for testing an enterprise's export-readiness comprises four questions: (i) Is the enterprise ready to export? (ii) Has the enterprise done its research? (iii) Has the company the capability? (iv) Does the enterprise have

an export plan? Each has its own set of sub-criteria: Question 1 has ten criteria, question 2 has seven, question 3 has eight, and question 4 has five. Therefore, to further analyse where development work is most needed, each of the selected enterprises was assessed against Enterprise Ireland's criteria for each of the aforementioned questions.

Table 7.6 below again illustrates three scenarios, setting the yardstick at respectively meeting 50%, 66,667% and 75% of the particular sub-criteria. For question 1 (ten sub-criteria), this would mean that at 50%, the enterprise would have to have met five or more of the sub-criteria, seven or more at 66,667%, and eight or more at 75%. For question 2 (seven sub-criteria), it would mean that, at 50%, the enterprise would have to have met four or more of the sub-criteria, and five or more at both 66,667% and 75%. For question 3 (eight sub-criteria), it would mean that, at 50%, the enterprise would have to have met four or more of the sub-criteria, and six or more at both 66,667% and 75%. For question 4 (five sub-criteria), it would mean that, at both 50% and 66,667%, the enterprise would have to have met three or more of the sub-criteria, and four or more at 75%. (See Annexure D for the detailed analysis per enterprise.)

Table 7.6: Number of enterprises meeting export-readiness sub-criteria pre-mission and post-mission

Question	Number of enterprises meeting criteria					
	Pre-mission			Post-mission		
	50%+	66%+	75%+	50%+	66%+	75%+
Is the enterprise ready to export? (10 criteria)	19	14	10	20	14	11
Has the enterprise done its research? (7 criteria)	14	13	13	17	16	16
Has the company the capability? (8 criteria)	14	5	5	15	7	7
Does the enterprise have an export plan? (5 criteria)	3	3	3	5	5	4

(Source: Author, 2018)

From the table above, it can be deduced that the greatest level of development assistance is required for the enterprises to develop a proper export plan prior to them attempting to enter the export market. This position holds true both pre-mission and post-mission. The second most important area for assistance relates to the development of the necessary capabilities to properly service the export market. Once again, this holds true both pre-mission and post-mission. The position with regard to whether the enterprises' products are export-ready and whether they have done their

research would suggest that these aspects, whilst still requiring development assistance, are lesser priorities.

The analysis above can be an important aid to draw conclusions with regard to where the development work is required, as well as the level of importance that TISA attaches to international trends in export-readiness criteria. The following section attempts to assess the correlation between the performance of the selected enterprises and their export-readiness.

#### **7.4 Correlation between the performance of the subject enterprises and their export-readiness**

In Chapter 5, it was established that the enterprises selected by TISA to participate in their national pavilions displayed some degree of compatibility with the various Pickernell characteristics of an export-ready SME, ranging from a reasonable to a good fit.

Although the arguments in section 7.3 above hold true for the selected SMEs in aggregate, they do not address the performance of the individual SMEs that participated in the TISA-organised missions. This discussion, therefore, sets out to determine the individual SMEs' export performance in relation to their individual firm characteristics. The central question is: What did the export growth results look like of the participating SMEs that materially displayed the Pickernell characteristics compared to the SMEs that did not?

This question is analysed at two levels. The first analysis examines the relationship between the export performance of the individual SMEs and compliance with each of the Pickernell characteristics. The second analysis is based on overall compliance with all eight of the Pickernell characteristics, weighted at 25%, 50% and 75% compliance. For purposes of this exercise, the overall export performance of the enterprises is used – in other words, exports generated as a result of the DSBD/TISA intervention plus enterprises' own efforts.

An arbitrary threshold of R500 000 is set as cut-off point to determine export success. Even though the arbitrary threshold may be challenged for being too low, experience in practice has shown this not to be the case. According to Senior Industry Solutions Manager Richard Blatcher at PROS, a pricing science consultancy listed on the New

York Stock Exchange, manufacturers typically mark up their products by 15-20% (Blatcher, 2018). Assuming a 20% mark-up on production costs, this means that the enterprise would have available an amount of approximately R100 000 in the form of gross profit with which to carry out its international marketing activities.

Further validation for the arbitrary limit was provided by the Chief Operating Officer (COO) of TISA, who concurred with the assumption that at least R100 000 per annum was necessary for an enterprise to invest in securing international buyers. The enterprise's investment, together with TISA incentives, would enable approximately four international visits to existing and potential new buyers. TISA's COO argued that, given the predatory nature of international marketing, at least two such visits would be required to service and maintain existing clients. The remaining two visits should be used to expand the existing client base (Le Roux, 2018b).

As it is, even if the threshold were to be halved or doubled, it would not have a material impact on the analysis or its interpretation.

Eight tables have been developed (Tables 7.7–7.14) – a table for each of the Pickernell characteristics. Each table consists of six columns. The first column contains a list of the subject enterprises, and the second the export values for each of the enterprises. The third column contains the characteristics of the individual enterprises which can be compared to the Pickernell characteristics to determine whether or not there is a correlation. The fourth column indicates whether or not the enterprise exceeded R500 000 in export sales. Enterprises that exceeded R500 000 in export sales are coded 1 in the fifth column, and those that did not, are coded 0. The total of column 5 then indicates how many of the 20 subject enterprises can be considered to have generated successful export growth. The sixth column is coded 1 if the enterprise's characteristic correlates with the Pickernell characteristic and recorded in excess of R500 000 worth of exports, and 0 if not. The total of this column then indicates how many of the enterprises that achieved export success indeed possess the particular Pickernell characteristic.

These tabulations ultimately enable conclusions to be drawn with regard to the importance that should be attached to adherence to the Pickernell characteristics.

Table 7.7: Comparative analysis of Pickernell characteristics and export success, applying sector as qualifier

Enterprise name	Total export sales	Qualifier: Manufacturing ("Mfg") sector	Exports R500 000 (yes or no)	Code	
				>R500 k	Mfg & >R500 k
1	R55 000 000	Outsource Mfg	Yes	1	1
2	R2 575 000	Outsource Mfg	Yes	1	1
3	R10 000 000	Services	Yes	1	0
4	R4 964 000	Services	Yes	1	0
5	R13 900 000	Services	Yes	1	0
6	R5 400	Mfg	No	0	0
7	R60 000	Mfg	No	0	0
8	R36 000 <sup>1</sup>	Mfg	No	0	0
9	R24 000 <sup>1</sup>	Mfg	No	0	0
10	R374 593 <sup>1</sup>	Mfg	No	0	0
11	R400 000	Mfg	No	0	0
12	R5 964 400	Mfg	Yes	1	1
13	R67 081 600	Mfg	Yes	1	1
14	R70 000 000	Mfg	Yes	1	1
15	<R200 000 <sup>2</sup>	Mfg	No	0	0
16	R18 000 000	Mfg	Yes	1	1
17	R18 500 000	Services	Yes	1	0
18	R11 500 000	Mfg	Yes	1	1
19	R43 000 000	Mfg	Yes	1	1
20	R35 000 000	Mfg	Yes	1	1
<b>Total number of enterprises</b>				<b>13</b>	<b>9</b>

(Source: Author, 2018)

## Notes:

1. These enterprises disclosed that they had recorded export sales at the national pavilions of TISA only. The sales in addition to the pavilion were discarded, since they would have been offset against future TISA hosting costs.
2. Values were not supplied, but through probing, it was determined that the turnover had been >R2 million, but <R47,5 million (thus fitting the definition of a small enterprise), and export sales less than R100 000 per annum.

Table 7.8: Comparative analysis of Pickernell characteristics and export success, applying firm size as qualifier

Enterprise name	Total export sales	Qualifier: Small business, not very small or micro	Exports R500 000 (yes or no)	Code	
				>R500 k	Small & >R500k
1	R55 000 000	Small	Yes	1	1
2	R2 575 000	Small	Yes	1	1
3	R10 000 000	Small	Yes	1	1
4	R4 964 000	Small	Yes	1	1
5	R13 900 000	Small	Yes	1	1
6	R5 400	Micro	No	0	0
7	R60 000	Micro	No	0	0
8	R36 000 <sup>1</sup>	Micro	No	0	0
9	R24 000 <sup>1</sup>	Micro	No	0	0
10	R374 593 <sup>1</sup>	Micro	No	0	0
11	R400 000	Small	Yes	0	0
12	R5 964 400	Small	Yes	1	1
13	R67 081 600	Small	Yes	1	1
14	R70 000 000	Small	Yes	1	1
15	<R200 000 <sup>2</sup>	Small	No	0	0
16	R18 000 000	Small	Yes	1	1
17	R18 500 000	Small	Yes	1	1
18	R11 500 000	Small	Yes	1	1
19	R43 000 000	Small	Yes	1	1
20	R35 000 000	Small	Yes	1	1
<b>Total number of enterprises</b>				<b>13</b>	<b>13</b>

(Source: Author, 2018)

## Notes:

1. These enterprises disclosed that they had recorded export sales at the national pavilions of TISA only. The sales in addition to the pavilion were discarded, since they would have been offset against future TISA hosting costs.
2. Values were not supplied, but through probing, it was determined that the turnover had been >R2 million, but <R47,5 million (thus fitting the definition of a small enterprise), and export sales less than R100 000 per annum.

Table 7.9: Comparative analysis of Pickernell characteristics and export success, applying firm age as qualifier

Enterprise name	Total export sales	Qualifier: Firm age	Exports R500 000 (yes or no)	Code	
				>R500 k	>10 years & > R500k
1	R55 000 000	21	Yes	1	1
2	R2 575 000	11	Yes	1	1
3	R10 000 000	12	Yes	1	1
4	R4 964 000	10	Yes	1	1
5	R13 900 000	15	Yes	1	1
6	R5 400	18	No	0	0
7	R60 000	12	No	0	0
8	R36 000 <sup>1</sup>	5	No	0	0
9	R24 000 <sup>1</sup>	7	No	0	0
10	R374 593 <sup>1</sup>	18	No	0	0
11	R400 000	13	No	0	0
12	R5 964 400	10	Yes	1	1
13	R67 081 600	21	Yes	1	1
14	R70 000 000	54	Yes	1	1
15	<R200 000 <sup>2</sup>	8	No	0	0
16	R18 000 000	60	Yes	1	1
17	R18 500 000	17	Yes	1	1
18	R11 500 000	22	Yes	1	1
19	R43 000 000	17	Yes	1	1
20	R35 000 000	11	Yes	1	1
<b>Total number of enterprises</b>				<b>13</b>	<b>13</b>

(Source: Author, 2018)

## Notes:

1. These enterprises disclosed that they recorded export sales at the national pavilions of TISA only. The sales in addition to the pavilion were discarded, since they would have been offset against future TISA hosting costs.
2. Values were not supplied, but through probing, it was determined that the turnover had been >R2 million, but <R47,5 million (thus fitting the definition of a small enterprise), and export sales less than R100 000 per annum.

Table 7.10: Comparative analysis of Pickernell characteristics and export success, applying technology use as qualifier

Enterprise name	Total export sales	Qualifier: Uses modern technology and the internet	Exports R500 000 (yes or no)	Code	
				>R500 k	Technology use & exports > R500k
1	R55 000 000	Yes	Yes	1	1
2	R2 575 000	Yes	Yes	1	1
3	R10 000 000	No	Yes	1	0
4	R4 964 000	Yes	Yes	1	1
5	R13 900 000	No	Yes	1	0
6	R5 400	No	No	0	0
7	R60 000	No	No	0	0
8	R36 000 <sup>1</sup>	No	No	0	0
9	R24 000 <sup>1</sup>	No	No	0	0
10	R374 593 <sup>1</sup>	No	No	0	0
11	R400 000	Yes	No	0	0
12	R5 964 400	Yes	Yes	1	1
13	R67 081 600	Yes	Yes	1	1
14	R70 000 000	No	Yes	1	0
15	R200 000 <sup>2</sup>	Yes	No	0	0
16	R18 000 000	No	Yes	1	0
17	R18 500 000	No	Yes	1	0
18	R11 500 000	Yes	Yes	1	1
19	R43 000 000	Yes	Yes	1	1
20	R35 000 000	Yes	Yes	1	1
<b>Total number of enterprises</b>				<b>13</b>	<b>8</b>

(Source: Author, 2018)

## Notes:

1. These enterprises disclosed that they recorded export sales at the national pavilions of TISA only. The sales in addition to the pavilion were discarded, since they would have been offset against future TISA hosting costs.
2. Values were not supplied, but through probing, it was determined that the turnover had been >R2 million, but <R47,5 million (thus fitting the definition of a small enterprise), and export sales less than R100 000 per annum.

Table 7.11: Comparative analysis of Pickernell characteristics and export success, applying external networks as qualifier

Enterprise name	Total export sales	Qualifier: Participates in external networks ("ext. nwks")	Exports R500 000 (yes or no)	Code	
				>R500 k	Ext. nwks & > R500k
1	R55 000 000	No	Yes	1	0
2	R2 575 000	Yes	Yes	1	1
3	R10 000 000	Yes	Yes	1	1
4	R4 964 000	Yes	Yes	1	1
5	R13 900 000	Yes	Yes	1	1
6	R5 400	Yes	No	0	0
7	R60 000	Yes	No	0	0
8	R36 000 <sup>1</sup>	No	No	0	0
9	R24 000 <sup>1</sup>	Yes	No	0	0
10	R374 593 <sup>1</sup>	No	No	0	0
11	R400 000	Yes	No	0	0
12	R5 964 400	Yes	Yes	1	1
13	R67 081 600	Yes	Yes	1	1
14	R70 000 000	No	Yes	1	0
15	R200 000 <sup>2</sup>	No	No	0	0
16	R18 000 000	Yes	Yes	1	1
17	R18 500 000	Yes	Yes	1	1
18	R11 500 000	Yes	Yes	1	1
19	R43 000 000	Yes	Yes	1	1
20	R35 000 000	Yes	Yes	1	1
<b>Total number of enterprises</b>				<b>13</b>	<b>11</b>

(Source: Author, 2018)

## Notes:

1. These enterprises disclosed that they recorded export sales at the national pavilions of TISA only. The sales in addition to the pavilion were discarded, since they would have been offset against future TISA hosting costs.
2. Values were not supplied, but through probing, it was determined that the turnover had been >R2 million, but <R47,5 million (thus fitting the definition of a small enterprise), and export sales less than R100 000 per annum.

Table 7.12: Comparative analysis of Pickernell characteristics and export success, applying owner/manager age as qualifier

Enterprise name	Total export sales	Qualifier: Owner/manager older than 45	Exports R500 000 (yes or no)	Code	
				>R500 k	>45 years & > R500k
1	R55 000 000	56	Yes	1	1
2	R2 575 000	58	Yes	1	1
3	R10 000 000	55	Yes	1	1
4	R4 964 000	56	Yes	1	1
5	R13 900 000	51	Yes	1	1
6	R5 400	49	No	0	0
7	R60 000	50	No	0	0
8	R36 000 <sup>1</sup>	63	No	0	0
9	R24 000 <sup>1</sup>	38	No	0	0
10	R374 593 <sup>1</sup>	69	No	0	0
11	R400 000	39	Yes	0	0
12	R5 964 400	44	Yes	1	0
13	R67 081 600	48	Yes	1	1
14	R70 000 000	61	Yes	1	1
15	R200 000 <sup>2</sup>	38	No	0	0
16	R18 000 000	57	Yes	1	1
17	R18 500 000	60	Yes	1	1
18	R11 500 000	31	Yes	1	0
19	R43 000 000	73	Yes	1	1
20	R35 000 000	39	Yes	1	0
<b>Total number of enterprises</b>				<b>13</b>	<b>10</b>

(Source: Author, 2018)

## Notes:

1. These enterprises disclosed that they recorded export sales at the national pavilions of TISA only. The sales in addition to the pavilion were discarded, since they would have been offset against future TISA hosting costs.
2. Values were not supplied, but through probing, it was determined that the turnover had been >R2 million, but <R47,5 million (thus fitting the definition of a small enterprise), and export sales less than R100 000 per annum.

Table 7.13: Comparative analysis of Pickernell characteristics and export success, applying owner/manager qualification as qualifier

Enterprise name	Total export sales	Qualifier: Owner/manager degreed	Exports R500 000 (yes or no)	Code	
				>R500 k	Degree & > R500k
1	R55 000 000	Yes	Yes	1	1
2	R2 575 000	No	Yes	1	0
3	R10 000 000	Yes	Yes	1	1
4	R4 964 000	Yes	Yes	1	1
5	R13 900 000	Yes	Yes	1	1
6	R5 400	No	No	0	0
7	R60 000	No	No	0	0
8	R36 000 <sup>1</sup>	No	No	0	0
9	R24 000 <sup>1</sup>	Yes	No	0	0
10	R374 593 <sup>1</sup>	No	No	0	0
11	R400 000	Yes	Yes	0	0
12	R5 964 400	Yes	Yes	1	1
13	R67 081 600	No	Yes	1	0
14	R70 000 000	Yes	Yes	1	1
15	<R200 000 <sup>2</sup>	No	No	0	0
16	R18 000 000	Yes	Yes	1	1
17	R18 500 000	Yes	Yes	1	1
18	R11 500 000	No	Yes	1	0
19	R43 000 000	Yes	Yes	1	1
20	R35 000 000	No	Yes	1	0
<b>Total number of enterprises</b>				<b>13</b>	<b>9</b>

(Source: Author, 2018)

## Notes:

1. These enterprises disclosed that they recorded export sales at the national pavilions of TISA only. The sales in addition to the pavilion were discarded, since they would have been offset against future TISA hosting costs.
2. Values were not supplied, but through probing, it was determined that the turnover had been >R2 million, but <R47,5 million (thus fitting the definition of a small enterprise), and export sales less than R100 000 per annum.

Table 7.14: Comparative analysis of Pickernell characteristics and export success, applying owner/manager international trade experience as qualifier

Enterprise name	Total export sales	Qualifier: Owner/manager's international experience ("int. exp.")	Exports R500 000 (yes or no)	Code	
				>R500 k	Int. exp. & > R500k
1	R55 000 000	20 years	Yes	1	1
2	R2 575 000	6 years	Yes	1	1
3	R10 000 000	27 years	Yes	1	1
4	R4 964 000	10 years	Yes	1	1
5	R13 900 000	20 years	Yes	1	1
6	R5 400	No	No	0	0
7	R60 000	No	No	0	0
8	R36 000 <sup>1</sup>	No	No	0	0
9	R24 000 <sup>1</sup>	No	No	0	0
10	R374 593 <sup>1</sup>	No	No	0	0
11	R400 000	No	Yes	0	0
12	R5 964 400	20 years	Yes	1	1
13	R67 081 600	12 years	Yes	1	1
14	R70 000 000	15 years	Yes	1	1
15	<R200 000 <sup>2</sup>	No	No	0	0
16	R18 000 000	20 years	Yes	1	1
17	R18 500 000	30 years	Yes	1	1
18	R11 500 000	5 years	Yes	1	1
19	R43 000 000	16 years	Yes	1	1
20	R35 000 000	5 years	Yes	1	1
<b>Total number of enterprises</b>				<b>13</b>	<b>13</b>

(Source: Author, 2018)

Notes:

1. These enterprises disclosed that they recorded export sales at the national pavilions of TISA only. The sales in addition to the pavilion were discarded, since they would have been offset against future TISA hosting costs.
2. Values were not supplied, but through probing, it was determined that the turnover had been >R2 million, but <R47,5 million (thus fitting the definition of a small enterprise), and export sales less than R100 000 per annum.

Table 7.15 below provides a synopsis of Tables 7.7 to 7.14 above. It indicates that, with regard to all qualifiers, 13 (65%) of the 20 enterprises that participated in the TISA-

organised national pavilions can be deemed successful exporters. In all instances, they display substantial correlations with the Pickernell characteristics.

Table 7.15: Summary of correlations between Pickernell characteristics and export success

Qualifier	Successful exporters	Number of qualifier correlations	Degree of correlation
Manufacturing sector	13	9	69%
Firm size: larger SMEs	13	13	100 %
Firm age: >10 years	13	13	100%
Uses modern communication technology	13	8	64%
Exposure to external networks	13	11	85%
Owner/manager age: >45	13	10	77%
Owner/manager degreed	13	9	69%
Owner/manager has international trade experience	13	13	100%

(Source: Author, 2018)

By contrast, all of the selected enterprises that were not successful in developing export markets fell short of the Pickernell characteristics. As shown in Table 7.16 below, none of the five enterprises that participated in the India International Trade Fair in 2014 display more than 50% of the Pickernell characteristics. The remaining two, who were participants in the 2016 Hong Kong Jewellery and Gem Fair, also fail to show any significant correlation with the Pickernell characteristics: Enterprise 15 falls short of 50% correlation, whereas Enterprise 7 fails to display more than two-thirds correlation.

In Table 7.16, the first two columns are dedicated to the numbers of the subject enterprises that failed to develop export markets, and their respective turnovers. This is followed by a column for each of the eight Pickernell qualifiers, namely that the enterprise should be in manufacturing (Q1f1), a larger SME (Q1f2), older than 10 years (Q1f3), make use of technology and modern communication methods (Q1f4) and have access to external networks (Q1f5), and that the owner/manager should be older than 45 (Q1f6), degreed (Q1f7) and have some international trade experience (Q1f8). The last column indicates how many of the Pickernell characteristics each enterprise possesses.

Table 7.16: Summary of correlations between Pickernell characteristics and export failure

Enterprise	Exports	Qlf 1	Qlf 2	Qlf 3	Qlf 4	Qlf 5	Qlf 6	Qlf 7	Qlf 8	Total
6	R5 400	1	0	1	0	1	1	0	0	4
7	R60 000	1	0	1	0	1	1	0	0	4
8	R36 000	1	0	0	0	0	1	0	0	2
9	R24 000	1	0	0	0	1	0	1	0	3
10	R374 593	1	0	1	0	0	1	0	0	3
11	R400 000	1	1	1	1	0	0	1	0	5
15	<R200 000	1	1	0	1	0	0	0	0	3

(Source: Author, 2018)

Whilst the analyses contained in Table 7.7 to 7.14 indicate that each of the Pickernell characteristics is indeed present in most of the successful exporting enterprises, it is yet to be established whether each of those enterprises in themselves display a majority of the Pickernell characteristics. To this end, Table 7.17 below takes the analysis a step further. All the enterprises are first listed and then sorted based on their export turnover, ranked from largest to smallest. The ranking plays no significant role other than differentiating between the successful and unsuccessful enterprises measured in terms of export growth. As mentioned before, for purposes of this research, success in export growth was considered to have been achieved where the enterprise had recorded in excess of R500 000 in export sales since participating in the particular national pavilion.

Table 7.17: Analysis of individual enterprises' correlation with Pickernell characteristics

Enterprise	Export turnover	Enterprise					Owner/manager			Correlations
		Sector	Size	Age	Tech	Networks	Age	Degreed	Int. exp.	
14	R70 000 000	1	1	1	0	0	1	1	1	6
13	R67 081 600	1	1	1	1	0	1	0	1	6
1	R55 000 000	1	1	1	1	0	1	1	1	7
19	R43 000 000	1	1	1	1	1	1	1	1	8
20	R35 000 000	1	1	1	1	1	0	0	1	6
17	R18 500 000	0	1	1	0	1	1	1	1	6
16	R18 000 000	1	1	1	0	1	1	1	1	7
5	R13 900 000	0	1	1	0	1	1	1	1	6
18	R11 500 000	1	1	1	1	1	0	0	1	6
3	R10 000 000	0	1	1	0	1	1	1	1	6
12	R5 964 000	1	1	1	1	1	0	1	1	7
4	R4 964 000	0	1	1	1	1	1	1	1	7
2	R2 575 000	1	1	1	1	1	1	0	1	7
11	R400 000	1	1	1	1	0	0	1	0	5
15	<R200 000	1	1	0	1	0	0	0	0	3
10	R144 417	1	0	1	0	0	1	0	0	3
7	R60 000	1	0	1	0	1	1	0	0	4
8	R36 000	1	0	0	0	0	1	0	0	2
9	R24 000	1	0	0	0	1	0	1	0	3
6	R5 400	1	0	1	0	1	1	0	0	4

(Source: Author, 2018)

The analysis confirms that all of those enterprises that achieved export sales in excess of R500 000 possess 75% or more of the Pickernell characteristics. On the other hand, all but one of the enterprises that were unsuccessful in achieving export sales in excess of R500 000 fail to display more than half of the Pickernell characteristics.

## 7.5 Analysis and discussion of findings relating to DSBD/TISA's export selection criteria

Whereas the research design was set up to analyse whether TISA was adhering to its own selection criteria (section 5.4.5), this was not really necessary, since the empirical research revealed that TISA set only minimal if any standards for all but one of the Pickernell characteristics. It was only in terms of sector that TISA's preference for enterprises in manufacturing matched the Pickernell characteristic of an export-ready SME.

Therefore, only the sector characteristic, namely manufacturing, needed to be scrutinised. This revealed that 16 of the 20 enterprises were indeed manufacturers.

Thus, 80% matched the TISA criteria. The remaining four, or 20%, provided international marketing and sales services to manufacturers. In the main, therefore, TISA was adhering to its own selection criteria in terms of the sector (manufacturing) from which it should be selecting participants to join its missions.

As TISA set almost no standard in respect of the remaining seven criteria, it goes without saying that those were adhered to. This was confirmed, for example, by the fact that:

- one of the subject enterprises manufactures his products, although by no means inferior, from under a cloth awning under a tree in his front yard; and
- another enterprise does so from an ill-equipped, small room at the back of a church.

As mentioned earlier, the Chief Operating Officer of TISA (Le Roux, 2018a) had an explanation for these lower standards: According to him, TISA has to comply with national economic policies that emphasise the need for youth empowerment and economic transformation by engineering the entry of previously disadvantaged communities into the mainstream economy. It follows, then, that the Pickernell owner/manager age characteristic of >45 years, for example, is a stumbling block in terms of youth empowerment. Similarly, criteria such as insisting on the owner/manager having a degree and/or international trade experience pose barriers to the entry of previously disadvantaged communities. Similar arguments are made in respect of the other criteria as well.

Whether this rationale is valid or not is a matter of interpretation. A counter-argument may be that the empowerment objectives could be better served through alternative techniques. This makes the discussion and findings regarding the alternative export promotion techniques under section 7.8 all the more important.

## **7.6 Analysis and discussion of findings relating to national pavilion selection**

A noteworthy observation relates to TISA's selection of national pavilions in which South African industry should participate.

While participation in the SIAL China 2015 and Hong Kong Jewellery and Gem Fair 2016 recorded significant successes for a number of the participating enterprises, the opposite was true for the FIHAV 2015 and India International Trade Fair (IITF) 2014. No exports were generated from Cuba itself, although one of the enterprises did

secure export sales in Panama from a contact made at FIHAV 2015. No significant export sales flowed from the IITF 2014.

This raises a material concern about whether the choice of exhibition could have distorted the research results. In this regard, the following two aspects need to be considered: (i) How did the characteristics of the two sets of enterprises (IITF and FIHAV) differ from each other? (ii) How does the own-effort export performance of the two sets of enterprises compare? All the IITF participants were micro-sized enterprises, and none of them generated any significant sales outside of the national pavilion organised by TISA. On the other hand, all of the FIHAV participants were larger to small enterprises, and all went on to register significant own-effort exports. The differentiating factors seem to be enterprise characteristics and capabilities.

The aforementioned indicates that although the choice of exhibition may negatively affect public value in terms of adding export growth, it does not change the validity of this measurement. It is, after all, the quantum of export sales generated as a consequence of TISA's hosting of the national pavilions that is being measured. With regard to the other two measurements – i.e. public value added in terms of export capacity development, and the effect of TISA's enterprise selection criteria – neither are tied to particular exhibitions, but pertain to the capabilities and characteristics of the participating enterprises instead.

### **7.7 Identifying the shortcomings in the current export promotion programme based on discussion and analysis of findings**

To identify the shortcomings in DSBD's current export promotion programme, the emphasis is on where the current programme is failing in terms of its objective of creating public value. In the context of this research, public value is deemed to have been added where the SMEs achieved export growth and developed their export capacity. Therefore, if the programme did not deliver such outcomes, it may be considered deficient and require adjustments.

According to the empirical research, the TISA-organised national pavilions delivered reasonable value in this regard. Eight out of the 12 enterprises scrutinised were able to grow their exports as a direct consequence of their participation in the national pavilions organised by TISA. When analysing export growth as a result of both TISA's efforts and the enterprises' own, the number of enterprises who registered positive

export growth increases to 15, or 75% (see Table 7.2). Of real concern, however, are the five enterprises that failed to record any material export sales. DSBD should consider both the appropriateness of including them in future national pavilions, as well as possibly adopting alternative techniques that may better promote their products in the international market.

The empirical research also found that when considering the development of the SMEs' export capacity, there was a serious disparity between the criteria with which an export-ready enterprise *should* comply and the existing criteria with which the subject enterprises *actually* complied. Enterprise Ireland's checklist for export-readiness lists 30 criteria. The post-mission analysis of the subject SMEs revealed that much development work was still required. At the lower compliance rate of 50%, four enterprises were not export-ready, and 11 at the higher compliance rate of 75%. This in itself would suggest that across the broad spectrum of participants, development work was still required. It was also noted that none of the micro-sized enterprises scrutinised adhered to more than 50% of the criteria (see Table 7.5). In addition, DSBD appears to have done no follow-up development work subsequent to any of the SMEs' participation in the national pavilions (see Table 5.4).

All of the above points to a potential need for adjustments in DSBD's current operations aimed at SME export promotion.

## **7.8 Analysis and discussion of findings relating to the identified alternative techniques**

In Chapter 6, six alternative export promotion techniques were identified with a view to providing DSBD with a range of options that it may wish to consider in either replacing or enhancing to the existing programme. In assessing the applicability of each of the techniques, one needs to consider whether their designs would in fact address the shortcomings identified in section 7.7 above. To this end, a list of questions has been developed against which each of the alternatives may be assessed and tabulated.

In terms of the techniques' ability to assist the enterprises in developing markets for their products, the questions are:

- Could the technique assist in identifying potential markets/buyers abroad?

- Could the technique assist in facilitating connectivity between buyer and seller abroad (matchmaking)?
- Could the technique assist in doing follow-up for the intermediary abroad?
- Could the technique act as the enterprise's intermediary abroad?

In terms of the techniques' ability to assist the enterprises in developing their export capabilities, the questions mainly revolve around the four main themes contained in Enterprise Ireland's export-readiness checklist. The questions are as follows:

- Could the technique assist in readying the enterprise's product for the export market?
- Could the technique assist in the enterprise's research?
- Could the technique assist in developing the enterprise's export capabilities?
- Could the technique assist the enterprise in developing an export plan?

The following six tables (Tables 7.18–7.23) reflect the responses to these questions for each of the identified alternatives. Each time, the first column contains the list of questions, the second column indicates the response to the question, and the third column provides the reasons for the response, gleaned from revelations contained in Chapter 6.

Table 7.18: Applicability of subcontracting as an alternative export promotion technique

Questions relating to <u>subcontracting</u> as an alternative export promotion technique	Response	Reasons
Could the technique assist in identifying potential markets/buyers abroad?	Yes	Many manufacturing SMEs participate in global value chains (Bradley, Meyer & Gao, in Kim & Hemmert, 2015:3)
Could the technique assist in facilitating connectivity between buyer and seller abroad (matchmaking)?	Yes	Intra-country measures to attract inter-firm linkages in order to create a wider network (ITC, 1999:4)
Could the technique assist in doing follow-up work for the enterprise abroad?	Yes	Collaborative arrangements with larger firms that help overcome limitations (Okatch, Mukulu & Oyugi, 2011:199)
Could the technique act as the enterprise's intermediary abroad?	Yes	It is a multi-tier relational system (Hodgkinson, 2000:5)
Could the technique assist in readying the enterprise's product for the export market?	Yes	Carry out processing to the specifications provided by customer firms (Imrie, in Kim & Hemmert, 2015:3)
Could the technique assist in the enterprise's research?	Yes	Enables SMEs to acquire "valuable ... market-related knowledge" without expending own, limited resources (Kim & Hemmert, 2015:4-5)
Could the technique assist in developing the enterprise's export capabilities?	No	Gives rise to "a much higher degree of closeness and interdependence", which may "lock SMEs into captive relationships ... to the detriment of their own business development" (Kim & Hemmert, 2015:4)
Could the technique assist the enterprises in developing an export plan?	No	It is indirect exporting (WTO, 2016:30)

(Source: Author, 2018)

Table 7.19: Applicability of trading houses as an alternative export promotion technique

Questions relating to <u>trading houses</u> as an alternative export promotion technique	Response	Reasons
Could the technique assist in identifying potential markets/buyers abroad?	Yes	Main functions include the production of information about market opportunities (Dziubla, 1982:431)
Could the technique assist in facilitating connectivity between buyer and seller abroad (matchmaking)?	Yes	General trading companies connect enterprises that desire to enter international markets, but who lack capacity (Eum & Lee, 2015:307)
Could the technique assist in doing follow-up work for the enterprise abroad?	Yes	They act as "one-stop exporters" for their clients (Dziubla, 1982:442)
Could the technique act as the enterprise's intermediary abroad?	Yes	Main function is to act as intermediaries with the markets (Dziubla, 1982:456)
Could the technique assist in readying the enterprise's product for the export market?	Yes	They work with SMEs to improve their products to make it export-ready (X, 2018)
Could the technique assist in the enterprise's research?	Yes	Through consultancy/advisory services (X, 2018)
Could the technique assist in developing the enterprise's export capabilities?	Yes	They provide expert consultancy and advisory services to develop SME export capacity (X, 2018)
Could the technique assist the enterprises in developing an export plan?	Yes	Through consultancy/advisory services (X, 2018)

(Source: Author, 2018)

Table 7.20: *Applicability of specialised export-sector-focused promotion activities as an alternative export promotion technique*

Questions relating to <b>specialised export-sector-focused promotion activities</b> as an alternative export promotion technique	Response	Reasons
Could the technique assist in identifying potential markets/buyers abroad?	Yes	DIHK/chambers do research to discover product potential abroad (Wenzel, 2018)
Could the technique assist in facilitating connectivity between buyer and seller abroad (matchmaking)?	Yes	DIHK/chambers arrange for exposure of products to potential buyers (Wenzel, 2018)
Could the technique assist in doing follow-up work for the enterprise abroad?	No	Aimed at matching enterprises, not transacting (Wenzel, 2018)
Could the technique act as the enterprise's intermediary abroad?	No	Focus is on exposing products; enterprises remain responsible for their own exporting activities (Wenzel, 2018)
Could the technique assist in readying the enterprise's product for the export market?	No	No evidence to support; summation is that product development does not form part of the programme
Could the technique assist in the enterprise's research?	Yes	In terms of identifying business opportunities, discovering potential partners, information on regulatory environment and level of technological development (Wenzel, 2018)
Could the technique assist in developing the enterprise's export capabilities?	No	No evidence to support; summation is that it is about exposing the product, not developing the enterprise
Could the technique assist the enterprises in developing an export plan?	No	No evidence to support; summation is that it is about exposing the product, not developing the enterprise

(Source: Author, 2018)

Table 7.21: *Applicability of chambers abroad as an alternative export promotion technique*

Questions relating to <b>chambers abroad</b> as an alternative export promotion technique	Response	Reasons
Could the technique assist in identifying potential markets/buyers abroad?	Yes	Tasks include identifying business opportunities in host countries (Wenzel, 2018)
Could the technique assist in facilitating connectivity between buyer and seller abroad (matchmaking)?	Yes	Tasks include introducing German enterprises to enterprises from host countries through a series of business programmes (Wenzel, 2018)
Could the technique assist in doing follow-up work for the enterprise abroad?	Yes	Tasks include assisting SMEs to enter the international market (Wenzel, 2018)
Could the technique act as the enterprise's intermediary abroad?	Yes	Work as partners with local businesses (Wenzel, 2018)
Could the technique assist in readying the enterprise's product for the export market?	No	No evidence to support; summation is that it is about exposing existing, quality products
Could the technique assist in the enterprise's research?	Yes	Tasks include market identification, examining local regulation/level of technological development (Wenzel, 2018)
Could the technique assist in developing the enterprise's export capabilities?	No	No evidence to support; summation is that it is about exposing the product, not developing the enterprise
Could the technique assist the enterprises in developing an export plan?	No	No evidence to support; summation is that it is about exposing the product, not developing the enterprise

(Source: Author, 2018)

Table 7.22: Applicability of an SME service centre as an alternative export promotion technique

Questions relating to an <b>SME service centre</b> as an alternative export promotion technique	Response	Reasons
Could the technique assist in identifying potential markets/buyers abroad?	Yes	Through e-commerce and traditional off-line introductory methods (Huang, 2018)
Could the technique assist in facilitating connectivity between buyer and seller abroad (matchmaking)?	Yes	Through e-commerce and traditional off-line methods (Huang, 2018)
Could the technique assist in doing follow-up work for the enterprise abroad?	Yes	Centre provides a one-stop export service (Huang, 2018)
Could the technique act as the enterprise's intermediary abroad?	Yes	Has specific programmes to contract as intermediary (Huang, 2018)
Could the technique assist in readying the enterprise's product for the export market?	Yes	Part of the service includes assistance with regard to compliance with regulations, health standards, packaging development, etc. (Huang, 2018)
Could the technique assist in the enterprise's research?	Yes	Provides a specific service in this regard (Huang, 2018)
Could the technique assist in developing the enterprise's export capabilities?	Yes	Provides consultancy and advisory services aimed at developing export capabilities (Huang, 2018)
Could the technique assist the enterprises in developing an export plan?	Yes	Provides consultancy and advisory services that could assist in developing the SME's export plan (Huang, 2018)

(Source: Author, 2018)

Table 7.23: Applicability of a display centre as an alternative export promotion technique

Questions relating to a <b>display centre</b> as an alternative export promotion technique	Response	Reasons
Could the technique assist in identifying potential markets/buyers abroad?	Yes	Through permanent display centres and export promotion activities, e.g. facilitating participation in exhibitions, buyer-seller matching services, etc. (Yan, 2018)
Could the technique assist in facilitating connectivity between buyer and seller abroad (matchmaking)?	Yes	Through dual permanent display centres and export promotion activities, e.g. facilitating participation in exhibitions, buyer-seller matching, etc. (Yan, 2018)
Could the technique assist in doing follow-up work for the enterprise abroad?	Yes	Display centres' purpose is to provide one-stop exporting service, including follow-up work relating to various disciplines (Yan, 2018)
Could the technique act as the enterprise's intermediary abroad?	Yes	Display centres host products and have consultants available to market them (Yan, 2018)
Could the technique assist in readying the enterprise's product for the export market?	No	No evidence to support; summation is that it is a marketing service
Could the technique assist in the enterprise's research?	Yes	Provides a one-stop exporting service, including identifying market opportunities and assisting in determining regulatory and other matters (Yan, 2018)
Could the technique assist in developing the enterprise's export capabilities?	No	No evidence to support; summation is that it is about market introduction, but not the development of the SMEs' export capabilities.
Could the technique assist the enterprises in developing an export plan?	No	No evidence to support; summation is that it is about market introduction, but not the development of the SMEs' export capabilities.

(Source: Author, 2018)

As can be seen from the tabulations above, all six identified alternatives have elements that can help SMEs that intend entering the export market to grow their exports and develop their export capabilities. The most relevant seem to be trading houses and service centres, each of which provides solutions to all the questions posed. They are followed by subcontracting, chambers abroad, and display centres, each of which provides solutions to most of the questions posed. The remaining one, namely specialised sector-focused export promotion activities, provides solutions to only a limited number of the questions posed.

## **7.9 Conclusion**

In Chapter 5, it was found that in terms of DSBD achieving its public-value objectives, reasonable public value was added with regard to export growth. This was measured through assessing the export growth of the subject SMEs, and the development of their export capabilities. Whilst significant public value was added since the SMEs' participation in TISA-organised national pavilions, DSBD/TISA did no post-mission follow-up work, so no addition of public value can be ascribed to DSBD in this regard.

In Chapter 7, these findings have been further analysed and discussed. When refining the analysis of the quantum of sales as a result of DSBD efforts by excluding marginal export gains, the number of successfully exporting enterprises reduces slightly. However, public value added remains reasonable. Similarly, in terms of enterprises registering positive export gains due to their own efforts, a further refining of the measurement through discarding marginal gains also has only a minor impact on public value performance. Despite the fact that the number of successfully exporting enterprises reduces by two, the public-value assessment remains good.

As previously stated, no addition to public value in the development of SME export capacity can be ascribed to the efforts of DSBD. Through their own efforts, however, the enterprises managed to add significant public value in terms of developing their export capacity. Yet a further analysis was required to determine the number of participating SMEs that had managed to progress to export-ready. To enable this assessment, a measurement was designed to determine the level of compliance with Enterprise Ireland's export-readiness checklist, being the export-readiness standard used in this research. It remains open for decision-makers to decide what would constitute an export-ready enterprise in terms of the degree of compliance, on a scale

from no compliance to exceptional compliance. The number of enterprises that meets 50% of the criteria translates into “good compliance”. This reduces to “significant compliance” for the number that meets 66,667% of the criteria, and deteriorates further to “some compliance” for the number that meets 75% of the criteria.

In Chapter 5 of the study, it was found that there was a reasonable to good compatibility between the various characteristics of those enterprises selected to participate in the TISA-organised national pavilions and the Pickernell characteristics. In distinguishing between how this degree of compatibility differs between the successful exporting enterprises and the unsuccessful ones, the analysis in Chapter 7 points to a high degree of correlation between the Pickernell characteristics and the features of the successful exporters. Conversely, all but one of the enterprises that were unsuccessful in developing export markets also fail to display the Pickernell characteristics.

Since the empirical research revealed that TISA set minimal if any standards for all but one of the Pickernell characteristics, this, whilst done, really obviated the need for an analysis to determine whether TISA adhered to its own selection criteria. It was only in terms of sector that TISA’s preference for the enterprise to be in manufacturing matched the Pickernell characteristic of an export-ready SME. Sixteen out of the 20 enterprises were manufacturers, and the remaining four provided international marketing services to manufacturers.

The empirical research found that the TISA-organised national pavilions had delivered reasonable value in developing export growth, with eight of the 12 enterprises having been able to grow their exports as a direct consequence of their participation in the pavilions. When both TISA’s efforts and the enterprises’ own are considered, the number of enterprises registering positive export growth increases to 15 (75%).

In essence, therefore, the five enterprises that failed to record any material export sales should be where DSBD focus their attention. In this regard, DSBD should reconsider their policy of including enterprises that do not comply with the Pickernell characteristics in future national pavilions. In addition, potential alternative techniques should be explored that may better support such enterprises’ products in the international market.

In considering the development of the SMEs' export capacity, there was a serious disparity between the criteria with which an export-ready enterprise *should* comply and the existing criteria with which the selected enterprises *actually complied*. Development work seems to be required across the broad spectrum of participants.

Chapter 6 was dedicated to the secondary research question on alternative export promotion techniques that DSBD could potentially deploy to supplement or replace its existing practices. Chapter 7 has broadened the discussion by considering the applicability of each of the identified alternative techniques in addressing the current shortcomings of DSBD's programme offering. The two main shortcomings are (i) the failure by a number of the enterprises, and the majority of micro-sized enterprises, to develop any meaningful export growth, and (ii) the high level of development work that is required to elevate the SMEs to export-readiness status.

All six alternatives studied contain features that can be beneficial to SMEs that intend entering the export market and develop their export capabilities. Trading houses and service centres appear to be most relevant, followed by subcontracting, chambers abroad and display centres. Specialised sector-focused export promotion activities, however, are the least applicable alternative.

## **Chapter 8: Conclusions and recommendations**

### **8.1 Introduction**

In this study, public value was measured in terms of DSBD's contribution to the export growth of the SMEs that had participated in the TISA-organised national pavilions, and DSBD's contribution to the development of the SMEs' export capabilities.

To understand the success or failure of DSBD's efforts in promoting the SMEs' exports, TISA's selection criteria in deciding which enterprises should participate in their national pavilions were scrutinised. This was done by comparing the TISA selection criteria to the criteria for export-ready SMEs as defined by Pickernell and colleagues. The performance of the subject enterprises in this research was also measured against the Pickernell characteristics to determine the validity of the Pickernell characteristics as well as the reliability of TISA's own selection criteria.

Lastly, the research explored potential alternative export promotion techniques for DSBD to consider as a supplement to, or replacement of, their current practices. Six alternatives were assessed in terms of their applicability to achieve the public-value goals of promoting export growth and developing the export capabilities of SMEs that wish to enter the export market.

### **8.2 Conclusions**

The empirical research contained in Chapter 5 yielded findings on the creation of public value in terms of promoting the export growth and developing the export capabilities of the 20 subject SMEs. It went on to assess the export-readiness criteria employed by TISA. In Chapter 7, these findings were further expanded and discussed.

Chapter 6, in turn, identified six alternative SME export promotion techniques that DSBD may wish to consider in substituting or replacing their current practices. Again, Chapter 7 further fleshed out these alternatives, particularly their applicability to achieve export growth and develop the export capabilities of the enterprises.

The findings of Chapters 5 and 6, along with the further analysis and discussion of the findings in Chapter 7, have informed the conclusions and recommendations set out in the sections that follow.

### 8.2.1 On promoting export growth

It was found that of the 20 enterprises, only eight had registered net export growth as a direct result of their participation in the TISA-organised national pavilions. In terms of the coding key to determine the degree of success in creating public value through export growth, reasonable value was found to have been created expending taxpayers' funds on these endeavours.

Yet this finding did not consider the sustainability and quantum of the sales. Further examination was needed to consider whether the volume of sales generated through the DSBD efforts warranted the expenditure to generate those sales. In this regard, it was found that of the eight enterprises that had registered net exports, the sales of only six could be considered material. This shifted the result from the top end of the reasonable-value band to the mid-range.

This did not provide conclusive evidence that the growth in exports had been as a result of DSBD's efforts. Further scrutiny was required to ascertain whether the growth had been the result of DSBD's efforts or of the enterprises themselves. Of the 20 enterprises evaluated, 15 registered export growth due to DSBD and/or their own efforts (and the growth of 13 of these could be considered material). In terms of the defined scale to determine the degree of success in creating public value, it would appear that good value was achieved. However, out of the 15 that registered export growth, seven achieved export growth completely independently. (This reduces to six out of the 13 enterprises when eliminating non-material growth.) In addition, as can be seen in Table 8.1 below, of the remaining eight enterprises, six of whom registered material and sustainable growth, at least one was not dependent on DSBD to generate export sales. Thus, only five out of the 13 enterprises were dependent on DSBD for their export sales. It is therefore argued that the true value of DSBD's efforts should be reflected as five and not six, thereby placing the outcome at the bottom end, and not in the mid-range, of the reasonable-value band of the success scale.

Table 8.1: Calculating extent of export generation dependence on DSBD

Enterprise	Sales from DSBD efforts, where sales > cost to host	Own-effort sales	Difference (DSBD-own effort)	Code <sup>1</sup>
2	R1 365 000	R1 210 000	R155 000	0
3	R6 000 000	R4 000 000	R2 000 000	0
4	R3 600 000	R1 364 000	R2 236 000	0
5	R1 000 000	R12 900 000	(R11 900 000)	1
12	R5 964 400	R0	R5 964 400	0
13	R30 910 000	R36 171 600	(R5 261 600)	0
<b>Total</b>				<b>1</b>

(Source: Author, 2018)

Notes:

1. Coded 1 (i.e. not dependent on DSBD) if difference reflected a greater amount than the sales relating to DSBD efforts, and 0 (i.e. dependent on DSBD) if not.

Therefore, the conclusion drawn from the above findings is that, in terms of DSBD's objective to contribute public value by means of growing exports, it achieved reasonable value through the national pavilions. Yet more value was achieved through the enterprises' own efforts: As 13 enterprises registered material and sustainable export growth by adding their own efforts to DSBD's, this points to good public value created. And given that only five were dependent on DSBD for generating such growth, it meant that eight out of the thirteen were capable of generating their own export sales without participating in the TISA-organised national pavilions.

This, therefore, opens up an argument for an additional conclusion, namely that whilst TISA should continue to organise national pavilions (albeit with stricter selection criteria, as will be recommended later in this section), greater emphasis should be placed on alternative techniques to target and assist enterprises that have demonstrated independency in generating export sales.

### 8.2.2 On developing export capacity

To determine whether DSBD added any value with regard to developing the export capabilities of the SMEs that had participated in the TISA-organised national pavilions, the enterprises' capabilities prior to their participation in the national pavilions and at the time of the interviews for the research were considered against the "Steps to Exporting" checklist developed by Enterprise Ireland (Enterprise Ireland, n.d.).

Of the 20 enterprises in this study, 10 demonstrated improved export capacity subsequent to their participation in the TISA-organised national pavilions. In terms of the success scale, this would suggest that significant public value was added. None of this could however be ascribed to DSBD's efforts, since all of the enterprises indicated that DSBD had done no follow-up work in terms of developing their export capacity. The conclusion is therefore quite straightforward: DSBD failed in its objective of achieving public value through developing the export capabilities of the enterprises that participated in the TISA-organised national pavilions.

This is particularly concerning when keeping in mind that the post-mission analysis of the enterprises pointed to a critical need for export capacity development work across the broad spectrum of the participating enterprises (section 7.3). The greatest need for development work relates to the drafting of a proper export plan prior to the enterprises attempting to enter the export market. The second most important area for development assistance would be to help the enterprises develop the necessary capabilities to properly service the export market. Other development work, although less of a priority, would relate to ensuring that the enterprises' products are export-ready and that they have done their market research.

### **8.2.3 On DSBD's selection criteria**

To make a determination as to whether TISA gives proper consideration to the selection of enterprises for its national pavilions, the research set out to consider the adequacy of TISA's selection criteria. Firstly, a set of sound and proven criteria had to be selected. Upon discovering the Pickernell characteristics of an export-ready SME, and finding wide support for them in the literature, it was resolved to adopt these characteristics as the basis for measuring the adequacy of TISA's own set of selection criteria.

Through a comparative analysis, the characteristics of the 20 enterprises were evaluated against those of Pickernell. Through further analysis, the subject enterprises' individual performance in terms of generating export sales and improving their export capacity was correlated with the Pickernell characteristics to verify the validity of the selection criteria.

The assessment of the selected enterprises' characteristics against Pickernell's yielded a good fit in terms of the sectoral characteristic (manufacturing). In terms of

enterprise size (larger SMEs) and whether the enterprises had contact with external networks, the fit was also good. In terms of their use of modern communication technology, the fit was only reasonable. Yet in terms of enterprise age, the fit was perfect. With regard to the Pickernell characteristics as they apply to the enterprise owner/manager, there was a good fit both in terms of age and previous international trade experience. However, with only 11 of the 20 enterprise owners/managers being tertiary graduates, the fit in terms of owner/manager qualifications was, at best, reasonable.

In terms of enterprise performance seen against the Pickernell characteristics, all but one of the subject enterprises that were unsuccessful in developing export markets fell short of the characteristics. By contrast, all of the enterprises that were successful in entering the export market displayed substantial correlations with the characteristics of Pickernell.

These findings support a conclusion that the Pickernell characteristics are indeed valid in determining whether an enterprise is export-ready or not. This would therefore suggest that DSBD/TISA would be well advised in adopting the Pickernell characteristics as the criteria for selecting enterprises for to participate in their national pavilions. The aforementioned conclusion is further strengthened by the fact that TISA's own selection criteria set the bare minimum requirements with regard to all but one of the Pickernell characteristics. It was only in terms of the sector qualifier (manufacturing) that there was a correlation between TISA's standards and those set by Pickernell. For all the other qualifiers, TISA's standards fell significantly short of the Pickernell standards.

#### **8.2.4 On TISA's choice of exhibitions**

Of the four pavilions examined in this study, two proved to generate material export sales, and the other two did not. Measurements were done to examine whether the non-performance was a result of enterprise inadequacies or the features of the exhibitions. The exhibitions that failed to generate material export sales for the South African enterprises were the 2014 IITF (New Delhi) and FIHAV 2015 (Havana).

Enterprises that participated in FIHAV 2015 and failed to generate any material export sales from their participation in the particular exhibition did go on to generate

significant export sales from subsequent own activity. This would suggest that the failure was very possibly a consequence of the choice of exhibition.

Enterprises that participated in the 2014 IITF, however, were all micro-enterprises that did not display the characteristics of an export-ready SME. Considering that the 2014 IITF national pavilion was designed specifically for small craft enterprises, this suggests that the poor results in terms of export sales may have related more to the selection of enterprises than the exhibition itself.

This leads to a conclusion that in selecting the exhibitions in which to participate, DSBD and TISA may not have adequately researched the market potential and prospects that the particular exhibitions held for the products of the participating South African SMEs.

#### **8.2.5 On the applicability of the alternative export promotion techniques explored**

Six alternative export promotion techniques were explored. From Japan, subcontracting and trading houses (sogo shoshas) were identified. From Germany, the collaboration with the German chambers of commerce abroad and the specialised export-sector-focused promotion activities were studied. From China, the introduction of permanent display centres and an SME service centre were investigated.

Two sets of questions were developed to establish the applicability of each of the techniques in delivering on the two main public-value objectives identified in the thesis – providing public value in terms of SME export growth, and providing public value in terms of developing SMEs' export capacity. The first set of questions tested the applicability of the techniques in helping the enterprises develop markets for their products. The second set of questions tested the applicability of the techniques in helping the enterprises develop their export capabilities.

According to the applicability tests, all six identified alternatives have elements that can assist SMEs that intend entering the export market to grow their exports and develop their export capabilities. Trading houses and service centres appear to be most relevant, each providing solutions to all the questions posed. They are followed by subcontracting, chambers abroad and display centres, each of which provides solutions to most of the questions posed. Specialised sector-focused export promotion

activities provide solutions to only a limited number of the questions posed, making it the least applicable alternative.

In light of this, the conclusion is reached that DSBD and TISA should continue offering participation in national pavilions as an incentive to encourage SMEs to enter the export market. In addition to this offering, however, they may wish to consider the introduction of alternative export promotion techniques to add to their current bouquet. In selecting and designing such alternatives, they could inter alia draw on the identified techniques above to devise a model that best suits South Africa's unique needs.

### **8.3 Recommendations**

Based on the findings contained in Chapters 5 to 7, and the conclusions drawn in this chapter, a number of recommendations may be made for enhancing DSBD's programme to support the development of export growth and capacity of SMEs. These recommendations are set out below.

#### **8.3.1 With regard to promoting export growth**

This research has concluded that, on the six-point scale ranging from 'no value' to 'excellent value', DSBD's current efforts aimed at SMEs' export growth deliver only 'reasonable value'. Total public value added through export growth, including the participating enterprises' own efforts, moves the achievement up to 'good value'.

Of the 13 enterprises that had registered material growth, only five were solely dependent on DSBD for developing their export markets. This would suggest that the national pavilions, whilst they make a good contribution to growing South Africa's exports, are less successful in introducing new participants to the international markets.

It is therefore recommended that although TISA should continue to organise national pavilions, albeit with stricter selection criteria, greater emphasis should be placed on alternative techniques to target and assist enterprises that are not yet export-ready. The national pavilions should be mostly reserved for those enterprises that have demonstrated independency in generating export sales.

### **8.3.2 With regard to developing export capacity**

An evident conclusion of the research is that there is a critical need for export capacity development work, with the greatest need being in relation to the development of proper export plans prior to any attempt to enter the export market, and the development of the necessary capabilities to properly service the export market. Other development work would include ensuring that enterprises' products are export-ready and market-researched.

Despite this, it was found that DSBD had done no follow-up work in terms of developing the export capacity of the enterprises that participated in the TISA-organised national pavilions.

Accordingly, it is recommended that DSBD (i) urgently introduce measures to assess the export potential discovered during the enterprises' participation in the national pavilions, and (ii) implement follow-up programmes to improve the export capabilities of those enterprises with proven potential. Follow-up work is imperative, whether this is done departmentally or by means of alternative public-private partnerships, as will be suggested later in this section.

### **8.3.3 With regard to DSBD/TISA selection criteria**

It was found that all the enterprises that managed to develop their export markets displayed a substantial correlation with the characteristics of an export-ready SME as defined by Pickernell and colleagues. On the other hand, all but one of the enterprises that were unsuccessful in developing export markets fell short of the Pickernell characteristics. These findings support the validity of the Pickernell characteristics in determining whether an enterprise is export-ready or not. In addition, TISA's own selection criteria seem to set the bare minimum requirements in respect of all but one of the Pickernell characteristics.

It is therefore asserted that DSBD and TISA's lack of adequate selection standards contributes to under-performance in terms of the public value that the programme could achieve.

For this reason, it is strongly recommended that DSBD and TISA part with the notion that enterprises do not necessarily need to display the generally accepted characteristics of an export-ready SME to successfully enter the export market.

Instead, DSBD and TISA should re-evaluate their selection criteria to align them with international best practice. The Pickernell characteristics of an export-ready SME are advocated here as the foundation on which DSBD and TISA should base their selection criteria.

To clarify, the recommendation above does not propose that DSBD/TISA abandon their national policy directive of supporting emerging, historically disadvantaged SMEs in their endeavours to enter the export market. What it does propose is that the current offering for supporting those SMEs be packaged differently. Here too, DSBD and TISA could consider departmentally designed and executed substitutes based on international best practice, or even public-private partnerships, as will be suggested later in this section.

#### **8.3.4 With regard to the choice of exhibitions in which to participate**

The export sales performance of the SMEs that had participated in the 2014 IITF in New Delhi and FIHAV 2015 in Havana raised questions as to whether the choice of exhibitions in which to host national pavilions affected the programme's potential to develop export growth. As previously stated, measurements were done to examine whether the non-performance was a result of enterprise inadequacies or the features of the exhibitions. It was concluded that, at least in the case of FIHAV, there was a high probability that the failure could have been the consequence of exhibition choice rather than enterprise inadequacies. DSBD and TISA apparently failed to adequately research the market potential and prospects that the particular exhibitions held for the South African SMEs' product.

It is therefore recommended that DSBD and TISA enhance their methodology and/or decision-making criteria in selecting exhibitions in which to participate. The methodology and/or decision-making criteria should avoid preferential likes or dislikes and should base choices solely on merit-based research.

#### **8.3.5 With regard to augmenting the current export promotion offering – imagining a new, holistic model**

Whilst it was concluded that DSBD's current offering, implemented through TISA, added a degree of public value and should be continued, certain shortcomings were also identified. The two most critical areas that require attention are the need for

development work to improve the enterprises' export capabilities, and the need for assistance in identifying and securing potential buyers in international markets – especially among the non-export-ready SMEs.

To this end, it is recommended that DSBD consider augmenting their current offering with alternative export promotion techniques. Among others, the six alternatives explored in this research could serve as a basis for developing a distinctly South African model.

The empirical research was designed to assess the applicability of each of the six models to address the abovementioned two main deficiencies identified in DSBD's current offering. Judging by the applicability tests, all six alternatives have elements that can aid SMEs in this regard.

One can therefore envision a distinctly South African model drawing on elements from each of the surveyed international practices. It is recommended that DSBD further study and consider the applicability of each model for the South African SME environment. This would include budgetary considerations, as well as decisions relating to whether the services should be executed departmentally or by means of public-private partnerships. The potential that could be unlocked by developing a comprehensive model that provides holistic SME export promotion is illustrated in the concept model below, which includes elements from each of the six alternatives.

Based on what the empirical research found to be the most relevant alternatives, namely trading houses and service centres, DSBD could conceivably initiate an 'SME Export Service Centre' (hereinafter "the Centre"). By adopting a public-private approach to resolve the shortcomings of current practices, both the rigidity associated with public services and budgetary constraints can be moderated. As such, the new model could act as both a service provider to DSBD and a provider of commercial services to SMEs that intend entering the export market.

The Centre could be organised along the following structure:

- The provision of trading services

On a purely commercial basis, the Centre could buy products directly from the manufacturer for onward selling. This would relieve the manufacturer from the burdensome rules, regulations and paperwork associated with exporting. In this way,

emerging enterprises could overcome the lack of owner/manager knowledge, qualification and experience, focusing solely on their core function of manufacturing. It would also reduce the financial risk of non-payment, as the manufacturer is paid on delivery, through a local transaction.

The funding of this component would be through private capital, with no budgetary provision by DSBD required.

The trading houses (sogo shoshas) of Japan provide precedent for this approach.

- Trade intermediary services

Also, on a purely commercial basis, the Centre could act as a trade intermediary for SMEs endeavouring to enter the export market. The SMEs would engage the Centre, who would survey international markets to identify the potential for the SMEs' products, search for buyers, and conclude sales transaction on behalf of the SMEs. The Centre would also manage all exporting procedures attached to the transaction. This the Centre would do on an agreed commission basis. Once again, this would relieve the manufacturer from the burdensome regulations associated with exporting, help it overcome the lack of owner/manager knowledge, and enable the entrepreneur to focus on the enterprise's core function of manufacturing.

The Centre could also act as intermediary between local manufacturers and e-commerce platforms internationally. The benefits of listing products on such platforms were fully explained in Chapter 6. As a reminder, the key benefits are that the platforms provide a one-stop service to exporters, eliminating the need for exporters to manage any export procedures except for shipping products to the platforms' bonded warehouse. Also, exporters do not have to commit large volumes of stock to the transaction, as the platforms specialise in high-volume small-quantity sales. Again, the entrepreneur is enabled to focus on the enterprise's core function of manufacturing.

This component would be funded through private capital and public incentives, thus requiring budgetary provision by DSBD. Private capital will fund the transactional elements, and public funds could be deployed for the surveying of international markets to identify the potential for the SMEs' products and to search for buyers. The public incentives could be in line with the current EMIA financial benefits, and will thus not require policy or budget line adjustments.

The trading houses (sogo shoshas) of Japan and the SME Service Centre of Wantran, China, provide precedent for this approach.

- Enterprise export capacity development and advisory services

The Centre could provide training and skills development services, as well as enterprise development services. It could be contracted by DSBD to provide expert consultancy and advisory services to government-approved SMEs so as to develop their export capacity. Such a service could be provided along the lines of the Japanese government's Overseas Business Development Project Programme (see Chapter 6). The services could similarly be provided on a purely commercial basis to the SMEs endeavouring to enter the export market.

This offering could include a variety of services. It could provide a facility to advise entrepreneurs who have developed a product, but need guidance and assistance to successfully commercialise their ideas. Its suite of advisory services could encompass all aspects of running an enterprise. These could include administrative assistance with registering and setting up an enterprise as a legal entity, helping enterprises apply for funding and manage their finances and taxes, environmental protection and health compliance, obtaining the necessary health certificates and permits for their particular products, etc.

The Centre could assist enterprises in their marketing efforts, both in terms of advertising as well as product packaging and presentation. In this regard, it could follow the example of the SME Service Centre of Wantran, which operates a fully equipped recording, photography and videography studio able to produce high-specification photos and/or videos for use in print or television/radio advertisements. Graphic designers are also at hand to assist with the development of marketing materials such as advertisements, brochures, product instructions, materials, etc.

Another component of the Centre's offering could be the development of enterprises' sales capabilities, for example the training of staff in marketing and conducting online and e-commerce sales.

The Centre may decide to deliver certain services itself and other services through independent specialists working in association with the Centre. Together, they will form a holistic ecosystem of entrepreneurship incubation. Similarly, enterprises

engaging the Centre may opt to have some or all services delivered by the Centre, or to have the Centre train and capacitate their staff for in-house delivery of some or all of the services.

Funding would be from various private and public sources, the modalities of which would have to be developed. Individual enterprises could pay commercial fees and commissions for certain services, whilst government could provide grants and reimbursements for other services. It is envisaged that certain policy and budgetary adjustments would be required by DSBD.

The trading houses (sogo shoshas) of Japan, the SME Service Centre of Wanran, China, and the Dongguan Commodity South Africa Display Centre/South Africa Commodity Dongguan Display Centre all provide precedent for this approach.

- Subcontracting development

The Centre could assist SMEs in negotiations aimed at including specialised SME-manufactured component products in large manufacturers' final products. This service could be extremely beneficial in assisting government to upscale and include emerging black entrepreneurs in the mainstream economy. Government, for example, requires local beneficiation and production when making large-scale government acquisitions, such as locomotives. The Centre could provide a service to the manufacturing industries aimed at identifying potential partners and facilitating their cooperation agreements.

This service need not be restricted to government-linked projects either. Foreign companies often consider South Africa as the gateway to sub-Saharan Africa (Draper & Scholvin, 2012:5). Others base themselves in South Africa to access the benefits of international trade agreements such as the preferential bilateral trade agreement between South Africa and the European Union, and the multilateral African Growth and Opportunity Act (AGOA) of the United States. For example, "about 60% of German companies in South Africa are dependent on AGOA for at least 50% of their production" (Smith, 2017). The Centre could provide policy advisory services to potential investors and help them give effect to such policies by linking them with local SMEs that they could include in their global value chains.

This will enable local SMEs to indirectly enter the export market, without burdening them with the complexities of international trade. Moreover, since the SMEs will be contracting with enterprises that need to adhere to international standards, the large enterprises could assist the subcontractors in bringing their products up to an export-ready standard.

Essentially, funding of the advisory services would be from private capital sources. However, the advisory services would market and help investors to access government investment incentives.

The large manufacturers of Japan and China provide precedent for this approach.

- Specialised export-sector-focused project management

The salient feature of this approach is its extremely targeted nature. Companies joining trade delegations would for example be restricted to five or six, as the end goal is not broad-spectrum participation, but the development of specialist, individual business cases.

The approach would be aimed at promoting exports in a targeted, focused way. The more unpredictable outcomes associated with traditional trade exhibition participation would be avoided by doing in-depth market research, pinpointing business opportunities, applying stringent enterprise selection criteria, and customising programmes aimed at matching South African enterprises with the business opportunities identified abroad.

The Centre could provide the aforementioned services and, together with local and international export-sector associations, facilitate business-to-business connections. In addition, the Centre could develop the project plan to secure the necessary funding for undertaking the missions on behalf of the export-sector companies.

Varied funding sources could be deployed to undertake these tasks. On the one hand, the enterprises themselves could be responsible for funding the market research, with or without the support of the export-sector associations. On the other hand, the EMIA incentives could be accessed to partly fund the connectivity visits abroad.

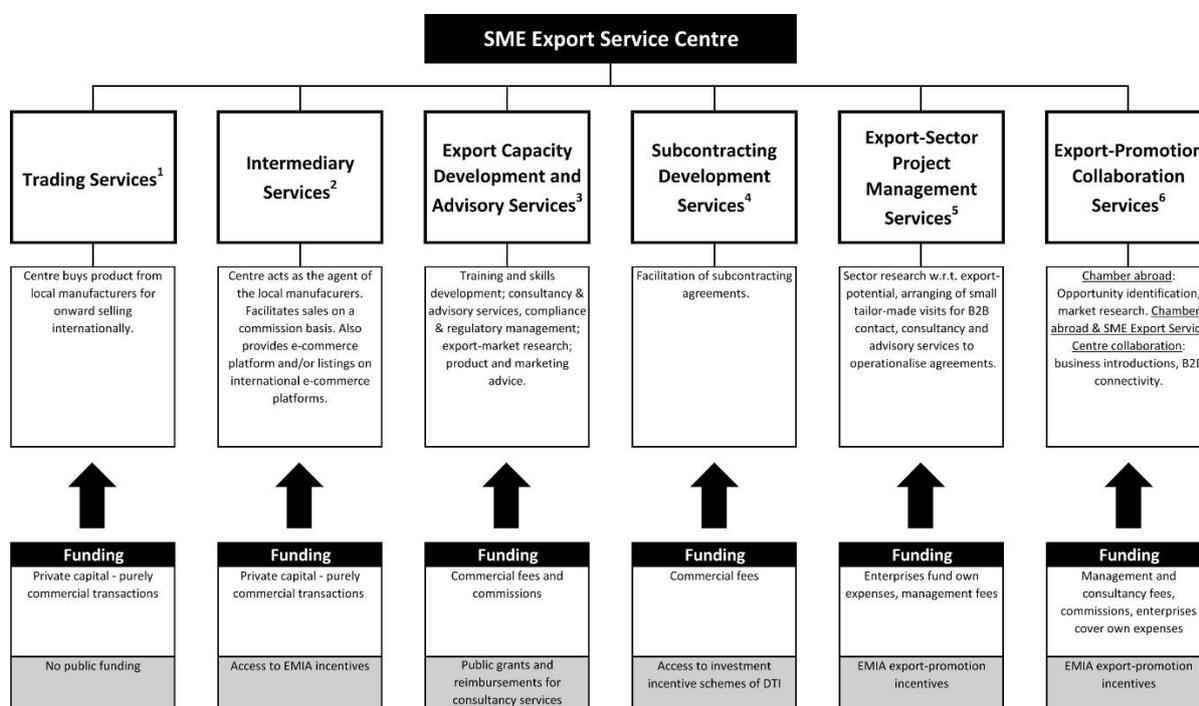
The “specialised export-sector-focused project management” model deployed by the German government, as described in Chapter 6, provides precedent for this approach.

- Export promotion collaboration projects.

This service will be modelled on the German Chambers Abroad Network, where German chambers abroad provide a wide-ranging suite of services to enterprises in Germany. Similarly, there are a number of South African chambers of commerce abroad, for example the South African chamber of commerce based in the United Kingdom (South African Chamber of Commerce, n.d.). They too could be employed to provide elements of the services provided by the German chambers abroad. These could include tasks such as assisting specifically SMEs to enter the international market by identifying opportunities abroad, and identifying South African provided products or services through collaboration with the Centre. The chambers could also collaborate with the Centre to undertake trade and investment promotion campaigns.

Funding would primarily be commercial fees and commissions, but the incentives of EMIA could also be leveraged to provide support.

As mentioned, the German Chambers Abroad Network, provides precedent for this approach.



**Notes indicate international precedent for the model:** (1) Trading houses of Japan, (2) Trading houses of Japan, Display Centre of China, SME Service Centres of China, (3) Trading houses of Japan, Overseas Business Development Project of the Japanese government, (4) Large enterprises of South Korea and Japan supported by government policy, (5) German government in association with various German business and sectoral associations, (6) Deutscher Industrie- und Handelskammertag

Figure 8.1: Illustrative alternative model for SME export support (Source: Author, 2018)

The concept model outlined in this section does not purport to be complete. It requires further in-depth research, modelling and testing, which DSBD is recommended to undertake. However, it serves as an indication that alternative mechanisms could be productively employed to overcome the shortcomings identified in the empirical research. It also indicates that a public-private partnership could secure greater access to the funds required for carrying out SME export promotion and development work. Moreover, engaging the private sector may facilitate much-needed agility and flexibility, as the private sector is able to function without the rigid constraints of public administration.

### **8.3.6 Conclusion**

The conclusions and recommendations above are the result of a comprehensive assessment of DSBD's SME export promotion programme of TISA-organised national pavilions at exhibitions abroad. In answering the primary research question, indications are that, through the SMEs' participation in the national pavilions, a degree of public value is being added in terms of the enterprises' export growth and the development of their export capacity. However, there is significant scope for achieving greater public-value results.

In response to the first secondary research question, it is submitted that the criteria deployed by DSBD and TISA to select enterprises for participation in the national pavilions are inadequate and in need of enhancement.

Finally, in response to the second secondary research question, this research presents a number of alternative export promotion techniques discovered internationally. These may serve as a foundation on which DSBD could craft its own alternatives to address the current deficiencies identified in its offering – deficiencies that undermine government's ability to optimise participating SMEs' export growth and capabilities.

It is hoped that the discoveries contained in this study will assist government in devising enhancements to its current programme aimed at improving the export growth and capabilities of South African SMEs. The development of such an enhanced programme could well be advanced through a further, expanded study in which proposed alternatives could be constructed and tested.

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Enterprise pseudonym number



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Master of Public Administration thesis: Daryl Swanepoel (21446172)

Assessing public value from the Department of Small Business  
Development's export promotion programme

### ENTERPRISE INTERVIEW QUESTIONNAIRE

**DECLARATION BY PARTICIPANT**

By signing below, I ..... agree to take part in a research study entitled 'Assessing public value from the Department of Small Business Development's export promotion programme' and conducted by Daryl Swanepoel.

I declare that:

- I have read the attached information leaflet and it is written in a language with which I am comfortable and fluent.
- I have had a chance to ask questions and all my questions have been adequately answered.
- I understand that taking part in this study is voluntary and I have not been pressurised to take part.
- I may be asked to leave the study before it has finished, if the researcher feels it is in my best interests, or if I do not follow the study plan, as agreed to.

My rights as a research participant has been explained to me. I understand that I may choose to leave the study at any time and will not be penalised or prejudiced in any way. I have been informed that I will not be waiving any legal claims, rights or remedies because of my participation in this research study. I have also been informed that should I have any questions regarding my rights as a research participant, I should contact Ms Maléne Fouché [mfouche@sun.ac.za; 021 808 4622] at the Division for Research Development.

All issues related to privacy and the confidentiality and use of the information I provide have been explained to my satisfaction. The information that I have provided during the interview is to the best of my knowledge a fair and accurate reflection of the enterprise's state of affairs.

\_\_\_\_\_  
**Signature of participant**

\_\_\_\_\_  
**Date**

**SIGNATURE OF INVESTIGATOR**

I declare that I explained the information given in this document to \_\_\_\_\_ He / She was encouraged and given ample time to ask me any questions. This conversation was conducted in English and no translator was used.

\_\_\_\_\_  
**Signature of Investigator**

\_\_\_\_\_  
**Date**

Enterprise pseudonym  
number

**NOTES:**

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**1. Enterprise particulars**

Enterprise name	
Physical address	
Postal Address	
Telephone number	
Mobile telephone number	
Email	
Contact person	
Main products / services of the enterprise	

Enterprise pseudonym  
number**2. Participation in international trade mission**

Trade mission scrutinized	
Date of mission	
Nature of mission	
How did enterprise get to be on the mission?	
Products promoted	
Participant details	

**3. Export sales of enterprise**

Timing of exports	2013	2014	2015	2016	2017
Value of sales during mission	In rands				
Value of sales generated from additional orders placed during the mission	In rands				
Value of sales generated from leads obtained during the mission	In rands				
Total value of export sales	In rands				

Enterprise pseudonym  
number

**4. Enterprise export-readiness status (export capabilities)**

**4.1 Is the enterprise ready to export?**

Considerations	Prior to mission	Subsequently to mission
> Is the export product ready?	Y/N	Y/N
> Does the enterprise have a value proposition?	Y/N	Y/N
	Evidenced by	
> Who are the target customers?		
> How will the enterprise enter the export market and what partners will be needed?		
> Who are the enterprise's competitors and what competitive advantage does it have?	Competitors	Competitors
	Competitive advantage	Competitive advantage
> Is the enterprises marketing and sales processes sufficient?	Y/N	Y/N
	Evidenced by	Evidenced by
> Has the company got the financial resources to see it through?	Y/N	Y/N
> Can the company cover the costs of selling overseas?	Y/N	Y/N
> Has the company determined a pricing strategy?	Y/N	Y/N
> How will the company manage risk and protect against not getting paid?		

Enterprise pseudonym number

**4.2 Has the enterprise done its research?**

Considerations	Prior to mission	Subsequently to mission
> Has the enterprise researched the market thoroughly?	Y/N	Y/N
	Evidenced by	Evidenced by
> Has the company identified market opportunities?	Y/N	Y/N
	What are they?	What are they?
> What cultural and language issues are relevant?		
> What legal issues should be considered?		
> Which export market should the enterprise target first?		
> What export duties, regulations and transportation issues apply to the enterprise's chosen market?		
> Has the company visited the market?	Y/N	Y/N

Enterprise pseudonym number

**4.3 Has the enterprise the capability?**

Considerations	Prior to mission	Subsequently to mission
> Has the enterprise sufficient internal capacity to deal with the increased workload?	Y/N	Y/N
	Indication	Indication
> Does the enterprise have sufficient capacity for increased production?	Y/N	Y/N
	Indication	Indication
> Is the enterprise competitive on costs?	Y/N	Y/N
	Indication	Indication
> Does the enterprise own the technology and are brands and intellectual property protected?	Y/N	Y/N
> How efficient is the enterprise's processes and operations?	Efficient / Needs to be improved	Efficient / needs to be improved
> Is the company managing innovation as a strategic business process?	Y/N	Y/N
	Evidenced by	Evidenced by
> Has a company got a website ready for export sales?	Y/N	Y/N
> Has the company got the right partners, agents or distributors on board?	Y/N	Y/N
	Explain	Explain

Enterprise pseudonym number

**4.4 Does the enterprise have an export plan?**

Considerations	Prior to mission	Subsequently to mission
> To assess international markets	Y/N	Y/N
	Evidenced by	Evidenced by
>To determine the potential for the enterprise's product or service	Y/N	Y/N
	Evidenced by	Evidenced by
>To ensure financial and other resources are in place to exploit the opportunities	Y/N	Y/N
	Evidenced by	Evidenced by
>To clearly communicate the enterprises goals to stakeholders	Y/N	Y/N
	Evidenced by	Evidenced by
>Is the plan ready to present as a business plan to financiers	Y/N	Y/N

**4.5 DSBD / TISA follow up work subsequently to the mission**

Has DSBD or TISA done any follow up work with the enterprise subsequently to the mission?	Indicate DSBD or TISA
What was the nature of the follow up work?	Describe
Can the follow up work be ascribed to DSBD or TISA efforts to assist the enterprise in becoming more export-ready?	Y/N Motivation

Enterprise pseudonym number

**5. Characteristics of the enterprise**

Characteristics		
> What sector is the enterprise involved in?	Sector	
	Product/services marketed abroad	
	Manufacturer or basic service?	
>What was the financial turnover and staff numbers during the last financial year?	Turnover in rands	Staff number:
>How many years has the enterprise actively been in operation?	Number of years	
>How old is the owner / manager? (Determine who manager exports)	Age:	
	Owner / manager:	
>Does the owner / manager have any experience in international trading?	Y/N	
	In exporting? Y/N	
	How many years?	
>What is the highest level of educational qualification that the owner / manager holds?	Qualification & level	
	Degreed? Y/N	
>Does the enterprise actively use and participate in modern technology?	Y/N	
	Evidenced by?	
	Does this include social media? Y/N	
	Does the enterprise have a website? Y/N	
	Is the website an active website? Y/N	
	Does the website provide for e-trading? Y/N	
>External networking resources	Has the owner / manager of the enterprise been exposed to trade organisations that promote trade?	Y/N Which trade organisations?
	Has the interaction yielded knowledge about doing international trade?	Y/N
	Is the owner / manager exposed to networking organisations that offer opportunities related to international trade?	Y/N Which networking organisations?

Checklist for testing an enterprise's export-readiness: Individual enterprises analysis

Export-readiness criteria	Enterprise																			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
<b>Pre-intervention</b>																				
Is the export product ready?	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Does the company have a value proposition?	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Who are the target customers?	1	1	1	1	1	1	1	1	1	0	1	1	1	1	1	1	1	1	1	1
How will the enterprise enter the export-market and what partners will be needed?	1	1	1	1	1	0	0	1	0	1	1	1	1	1	1	1	1	1	1	1
Who are the company's competitors and what competitive advantage does it have?	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Is the company's marketing and sales processes sufficient?	0	0	1	1	1	0	0	0	0	0	0	1	0	1	0	0	1	1	0	1
Has the company got the financial resources to see it through?	1	0	0	0	1	0	0	0	0	0	0	1	0	1	0	0	1	1	1	1
Can the company cover the costs to of selling overseas?	0	0	0	1	1	0	0	0	0	0	0	1	1	1	0	0	0	0	0	1
Has the company determined its pricing strategy?	0	1	1	1	1	0	0	0	1	1	0	1	1	1	1	1	1	1	1	1
How will the company manage risk and protect against not getting paid?	1	1	1	1	1	1	0	0	0	0	0	1	1	1	1	1	1	1	1	1
<b>Is the enterprise ready to export? (10 criteria)</b>	7	7	8	9	10	5	4	5	5	5	5	10	8	9	7	7	9	9	9	10
Has the enterprise researched the market thoroughly?	1	0	1	1	1	0	0	0	0	0	0	1	1	1	0	1	1	1	1	0
Has the company identified market opportunities?	1	0	1	1	1	0	1	0	0	0	0	1	1	1	1	1	1	1	1	1
What cultural and language issues are relevant?	1	0	1	1	1	0	1	1	0	0	0	1	1	1	1	1	1	1	1	1
What legal issues should be considered?	1	1	0	1	1	0	1	0	0	0	0	1	1	1	1	1	1	1	1	1
Which export market should the company target first?	1	0	1	1	1	1	1	0	0	1	0	1	1	0	0	1	1	1	1	1
What export duties, regulations and transportation issues apply to the company's chosen market?	1	1	1	1	1	1	1	1	0	1	0	0	1	1	1	1	1	1	1	1
Has the company visited the market?	1	0	1	1	1	1	0	1	0	1	0	1	1	1	0	0	1	1	1	0
<b>Has the enterprise done its research? (7 criteria)</b>	7	2	6	7	7	3	5	2	1	2	0	7	7	6	4	6	7	7	7	5
Has the company sufficient internal capacity to deal with the increased workload?	0	0	1	1	1	0	1	0	0	0	1	1	1	1	1	1	1	1	1	0
Has the company sufficient internal capacity for increased production?	0	0	1	1	1	0	1	1	0	0	1	0	1	1	0	1	1	1	1	0
Is the company competitive on costs?	1	1	0	1	0	1	0	1	1	1	0	0	1	0	1	0	1	1	1	1
Does the company own the technology and are the brands and intellectual property protected?	1	1	0	1	0	0	0	0	0	0	1	1	1	1	0	1	0	1	1	1
How efficient is the company's processes and operations?	0	1	1	1	0	0	1	0	0	0	0	1	1	1	0	0	1	1	1	0
Is the company managing innovation as a strategic business process?	1	1	1	1	1	0	1	1	1	0	1	1	1	1	1	1	0	1	1	1
Has the company got a website ready for export sales?	0	0	0	1	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	1
Has the company got the right partners, agents and distributors on board?	0	0	1	1	1	0	0	0	0	0	0	1	0	0	0	1	1	1	1	0
<b>Has the company the capability? (8 criteria)</b>	3	4	5	8	4	1	4	3	2	1	5	5	6	5	3	4	6	8	6	4
Export plan to assess markets?	1	0	1	1	1	0	0	0	0	0	0	0	0	1	0	0	1	1	0	0
Export plan to determine the potential for the enterprise's product or service?	1	0	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0
Export plan to ensure that the financial and other resources are in place to exploit the opportunities?	0	0	1	1	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0	0
Export plan to clearly communicate the enterprises goals to its stakeholders?	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0
Export plan ready to present as a business plan to financiers?	0	0	1	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0
<b>Does the enterprise have an export plan? (5 criteria)</b>	2	0	5	4	2	0	0	0	0	0	0	0	0	1	0	1	5	2	0	0
<b>Number of criteria met by each enterprise</b>	19	13	24	28	23	9	13	10	8	8	10	22	21	21	14	18	27	26	22	19

Export-readiness criteria		Enterprise																			
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Post-intervention		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Is the export product ready?		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Does the company have a value proposition?		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Who are the target customers?		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
How will the enterprise enter the export-market and what partners will be needed?		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Who are the company's competitors and what competitive advantage does it have?		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Is the company's marketing and sales processes sufficient?		0	0	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Has the company got the financial resources to see it through?		1	0	0	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Can the company cover the costs to of selling overseas?		0	0	0	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Has the company determined its pricing strategy?		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
How will the company manage risk and protect against not getting paid?		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Is the enterprise ready to export? (10 criteria)		8	7	8	9	10	5	5	5	6	5	6	10	9	9	7	7	8	9	9	10
Has the enterprise researched the market thoroughly?		1	1	1	1	1	1	0	0	0	0	1	1	1	1	0	1	1	1	1	1
Has the company identified market opportunities?		1	1	1	1	1	1	1	0	1	0	1	1	1	1	1	1	1	1	1	1
What cultural and language issues are relevant?		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
What legal issues should be considered?		1	1	0	1	1	1	1	0	0	0	0	1	1	1	1	1	1	1	1	1
Which export market should the company target first?		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
What export duties, regulations and transportation issues apply to the company's chosen market?		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Has the company visited the market?		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Has the enterprise done its research? (7 criteria)		7	7	6	7	7	3	6	2	4	2	6	7	7	6	5	6	7	7	7	7
Has the company sufficient internal capacity to deal with the increased workload?		0	1	1	1	1	1	0	1	0	0	1	1	0	1	1	1	1	1	1	1
Has the company sufficient internal capacity for increased production?		0	1	1	1	1	1	0	1	1	0	0	1	0	1	0	1	0	1	1	1
Is the company competitive on costs?		1	1	0	1	0	1	0	1	1	1	1	1	0	1	0	1	0	1	1	1
Does the company own the technology and are the brands and intellectual property protected?		1	1	0	1	1	1	0	0	0	0	1	1	1	1	0	1	0	1	1	1
How efficient is the company's processes and operations?		0	1	1	1	0	0	1	0	0	0	1	1	1	1	0	0	1	1	1	1
Is the company managing innovation as a strategic business process?		1	1	1	1	1	0	1	1	1	1	0	1	1	1	1	1	0	1	1	1
Has the company got a website ready for export sales?		1	1	0	1	0	0	0	0	0	0	1	0	0	0	0	0	0	0	1	1
Has the company got the right partners, agents and distributors on board?		1	1	1	1	1	1	0	0	0	0	0	1	0	1	0	1	1	1	1	0
Has the company the capability? (8 criteria)		5	8	5	8	5	1	4	3	2	1	7	5	4	6	3	4	5	8	7	7
Export plan to assess markets?		1	1	1	1	1	0	0	0	0	0	1	0	0	0	0	0	1	1	0	1
Export plan to determine the potential for the enterprise's product or service?		1	1	1	1	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0	1
Export plan to ensure that the financial and other resources are in place to exploit the opportunities?		0	1	1	1	0	0	0	0	0	0	1	0	0	1	0	0	1	1	0	0
Export plan to clearly communicate the enterprises goals to its stakeholders?		0	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0
Export plan ready to present as a business plan to financiers?		0	1	1	1	1	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0
Does the enterprise have an export plan? (5 criteria)		2	5	5	4	2	0	0	0	0	0	1	1	0	0	0	1	5	2	0	5
Number of criteria met by each enterprise		22	27	24	28	24	9	15	10	12	8	20	23	20	21	15	18	25	26	23	29