THE RATIONALE FOR EXPORT PROMOTION

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Exports are important. Yet, why should firms be enticed into exporting through the use of public funds? Profit opportunities for exporters should be enough of an incentive for firms to export.

To explore this issue, I will use our Georgetown University research, which was initially published in the AMA Journal of International Marketing. First off, it is helpful to understand the export process within the firm. Typically, firms evolve along different stages to become experienced exporters. They start out being uninterested in things international. Management frequently will not even fill an unsolicited export order. Should international market stimuli continue over time, however, a firm may move to the stage of export awareness, or even export interest. Management will begin to accumulate information about international markets and may consider the feasibility of exporting. At the export trial stage, the firm will fill selected export orders, serve a few customers, and expand into countries that are geographically close or culturally similar to the home country. At the export evaluation stage, firms consider the impact of exporting on overall corporate activities. Unless initial expectations are met, the firm is likely to discontinue its export efforts, seek alternative international growth opportunities or restrict itself to the domestic market. Success will lead the firm over time, to become an export adapter, make frequent shipments to many customers in more countries, and incorporate international considerations into its planning.

In each one of these stages, firms have different concerns. For example, at the awareness level, firms worry mainly about information on foreign markets and customers. At the interest stage, firms become concerned about the mechanics of exporting such as packaging or shipping. During the export tryout, communication, supply chain management, and the sales effort become key considerations. At evaluation time, regulations and financing take on greater importance. In the adaptation stage, service delivery and control are major issues.

As a firm moves through these stages, unusual things can happen to both risk and profit. Management's perception of risk exposure grows. During domestic expansion, the firm has become more familiar with the market, and has seen its risk decline. During international expansion, the firm encounters new factors such as currency exchange rates,, greater distances, new modes of transportation, new government regulations, new legal and financial systems, new languages, and cultural diversity. As a result, the firm's actual risk increases. At the same time, due to the investment needs of the exporting effort, in areas such as information acquisition, market research, and trade financing, the immediate profit performance may deteriorate. Even though eventually international market familiarity and diversification effects will reduce the risk and increase profitability, in the short and medium term, managers may face an unusual and perhaps unacceptable situation: rising risk accompanied by decreasing profitability. In light of this reality, and not knowing whether there will be a pot of gold at the end of the rainbow, many executives either do not initiate export activities or discontinue them. Therefore, a temporary gap in the working of market forces exists. Government export assistance can help firms over this rough patch to the point where profits increase and risk heads downward. Bridging this short-term market gap, which lasts typically for 2 to 3 years, is the key role of export assistance, and the major justification for public sector involvement.

If export assistance and promotion are to be rendered, budgets and efforts should be expended in the most effective manner. Organizational key determinants of business and export success are size, human and financial resources, technology, service and quality orientation, information system, research capabilities, market insights and connections, and the firm's ability to manage regulations. The managerial characteristics that research has most closely linked to export success are education, international exposure, expertise, international orientation, and commitment. These two corporate dimensions, organization and management, are subject to the opportunities and constraints of the international market environment, and will determine the degree of the firm's export involvement. This involvement in turn will result in export performance, which can be measured in three different ways. Efficiency refers to the relationship between corporate input employed and the resulting outputs achieved. Typically, efficiency is measured through the proxy of export profitability. Effectiveness refers to relative business success when compared to other competitors in the market, and is often measured in terms of market share and export sales growth. Competitive position addresses the overall strength of a firm arising from its distinct competencies, management style, and resource deployment. Typical indicators here are the overall quality and competence of a firm's export activities.

Export assistance can aim at the organizational characteristics and capabilities of the firm and try to improve those. It can also work with the managerial characteristics and contribute to their positive change. Export assistance providers must also be deeply involved with the international market environment, both in terms of learning from as well as shaping the environment.

Export assistance will be most effective when it either reduces the risk to the firm or increases its profitability from export operations. For example, providing information on market potential abroad is likely to decrease the risk (both real and perceived) to the firm. Offering low-cost credit is likely to increase profitability. Macro assistance in the foreign market environment can consist of international trade negotiations designed to break down foreign barriers to entry. Micro assistance consists of learning from the foreign market and its customers, and using that knowledge to adjust to that market.

Here are my conclusions about the seven dimensions that should guide export assistance efforts, in particular where new and growing businesses are concerned.

One needs to determine what export assistance is to achieve. Some of the current objectives are global fairness and the opening of world markets. Public funds and government attention are too scarce to invest solely to right wrongs or for the sake of fairness. The key focus must be on the benefits to U.S. employment.

The time frame involved should be a long-term orientation, which concentrates efforts on introducing more and new firms to the global market.

Export assistance needs to achieve either a specific reduction of risk or an increase in profits for firms. It should be concentrated primarily in those areas where profit and risk inconsistencies produce market gaps, and be linked directly to identifiable organizational or managerial characteristics that need improvement. Otherwise, assistance supports only exports that would have taken place anyway. The measurement of success should be based on the export involvement of the firm, focusing on the number of customers, transactions, and locations served.

Coordination is crucial. Within government, one must avoid that well established industry sectors with relatively low employment effects consume resources in an over proportionate fashion while priority growth industries would be left to seek export success on their own with insufficient support. Externally, export assistance must ensure that the policy gains abroad are actually used by domestic firms. Rather than concentrate only on well entrenched industries, the focus must be on sunrise industries.

Export assistance should emphasize those areas where government can bring a particular strength to bear-such as contacts or prowess in opening doors abroad, or information collection capabilities. Externally, programs should aim at the large opportunities abroad. As far as firms are concerned, attention should not assist industries in trouble, but mainly help successful firms do better.

Export assistance programs should start out by analyzing the current level of international involvement of the firm and then deliver assistance appropriate to the firm's needs. For example, help with after-sales service delivery is most appropriate for firms at the adaptation stage; firms at the awareness stage worry much more about information and mechanics. Assistance must also take foreign market conditions and foreign buyer preferences into account. It is easier to sell what is in demand rather than being guided by what’s in ample supply.

There should be a spark of boldness which goes beyond ensuring that things are done right, but checks whether one can do more right things. One could, for example, think about domestic and international efforts to set standards for technology and quality, and include the grading of enzymes, meats, hormones, and other products developed by biotechnology firms. Or one could think about the development of a national forfeiting institution and the delivery of training to banks, to be of major assistance in handling the financial and documentation aspects of exporting.

In a world of shifting goal posts and rapidly changing realities, all firms should be prepared for the global marketplace. If they can grow and successfully meet international competition, they will strengthen themselves and the nation.

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