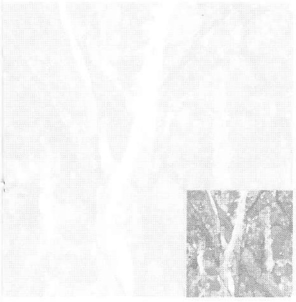

A Best Practice Model Of Regional Exporters

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Introduction

Australia's rising trade deficit reflects an increasing trend to import capital and consumer goods as our incomes improve, and the inability of our traditional commodity exports to generate the revenues needed to pay for these foreign purchases. Policy makers have targeted manufacturers, particularly of more complex, value-added products to bridge this gap. Slowly, it has been realised that our manufacturing exporters are found not only in the cities, but are also spread throughout rural and regional Australia. Little is known of these firms, what they produce, how long have they been exporting, what are their innovation strategies, how do they source new information, etc? In particular, how similar are rural and regional value-added exporters to their city counterparts? Are the programs developed with city firms in mind suitable for regional exporters, or do they need to be adapted for the non-metropolitan environment?

Regional development theory argues that regional economies develop an autonomous role in global markets. Rather than being relegated to a hinterland role for major cities, these regions develop their own export linkages into international markets. Regional entrepreneurs access national and international information networks, seeking new knowledge on product developments, market opportunities and monitoring the activities of their international competitors. They then bring this knowledge home to their local operations, using it to develop new generations of products and export strategies, which are converted into new 'best practice' innovations and relaunched into the market in a cumulative process of sustained export growth (for a review of these ideas see Tiberi-Vipraio and Hodgkinson 2000). Regions differ in their capacity to contribute to this process. However, it is argued that those regions that have strong local networks and a collaborative knowledge base will develop a stronger virtuous circle of sustained economic growth than those which rely on the capacities of isolated entrepreneurs. Further, firms which utilize collaborative strategies to develop new technologies and export markets will benefit in terms of stronger export growth than those that rely primarily on their internal technological capacities and personal contacts for sales (Courlet and Soulage 1994, Maillet and Grosjean 1999).

In this article, a model of a 'best practice' regional exporter is developed. This model identifies the characteristics and strategies associated with firms who have been able to achieve high rates of export growth for sustained periods of time. It also tests whether the characteristics identified in the international literature are also found in best practice regional exporters in Australia. The model is then used as a comparison with other groups of regional exporters, specifically young exporters and small firms, as a means of identifying changes in their behaviours and strategies that might improve their export performance in the future.

The Study

In an attempt to answer at least some of the questions posed above, a survey involving face-to-face or telephone interviews with senior managers of 146 exporters in seven non-metropolitan regions of New South Wales was undertaken in 2001-02. We selected regions where a concentration of value-added exporters existed. The selected regions were the Shoalhaven and Wingecarribee LGAs in the Illawarra, which also acted as the pilot study, the Hunter outside Newcastle, Murrumbidgee (Griffith and Leeton areas), Central West (Parkes, Dubbo, Orange and Bathurst), Northern Tablelands and the Far North Coast. The survey targeted value-added exporters in all sectors. However, the majority were in manufacturing, particularly in the food processing, petroleum and coal based products and chemicals, and machinery and equipment sectors. Data on sales, exports and employment were collected for the last five years. In addition, information on their corporate, production, innovation, export, information sourcing and procurement strategies was collected.

The overall objectives of the study were to:

- demonstrate the extent to which leading firms (exporters and innovators) exist outside the major metropolitan areas;
- analyse how these firms interact with their local economy in terms of procurement, collaborations and networking;
- examine the relationship between population change and economic development over time;
- develop structural models of leading firms in terms of global positioning and organisational change;
- propose new regional strategies to improve export growth, innovation and formation of successful exporters in regional Australia.

It was not possible to undertake econometric modeling, due to the high variability evident in most variables. This variability was a true feature of these firms, and not a result of sampling error, as well over 90 per cent of our target firms were covered in the survey. Consequently, a different method of analysis was used, based on the Cavasgil (1984) approach. This involved dividing the observations into groups and comparing the averages of the groups. Analysis was undertaken using a number of groups including sector, size, age and years exporting (see Hodgkinson, et al. 2003 for these results). One of the most useful groups for analysis was to divide firms in terms of their rate of export growth: negative, zero, modest, good and fast[1] - see Table 1.

1 Modest growth firms were defined as those which had average annual export growth of between 0.1% and 16.5%, good export growth consisted of rates between 16.6% and 75.5% per annum, while fast export growth was 75.6% per annum and above. Groups were based on quartile analysis.

Table 1: Export Growth Profiles (% of firms)

Characteristic	Fast	Good	Modest	Zero	Negative	Average
Age						
1 - 8 years	37.1	27.0	20.7	**52.2**	-	28.3
9 - 13 years	14.3	24.3	**31.0**	30.4	10.5	22.1
14 - 23 years	28.6	24.3	24.1	8.7	**31.6**	24.8
24 plus years	20.0	24.3	24.1	8.7	**57.0**	24.8
Years Exporting						
Three or less	45.7	16.2	13.8	**71.4**	15.8	30.8
Four or five	**40.0**	29.7	20.7	4.8	15.8	24.5
Six to nine	14.3	24.3	24.1	9.5	**31.6**	20.3
Ten or more	-	29.7	**41.4**	14.3	36.8	24.5
Firm Size						
Small	**66.7**	48.6	51.7	47.8	52.6	53.4
Medium	33.3	45.9	34.5	**52.2**	42.1	41.1
Large	-	5.4	**13.8**	-	5.3	5.5
Sector						
Primary Production	-	**8.1**	6.0	-	-	3.4
Food and Beverages	27.8	29.7	**37.9**	30.4	21.1	29.5
Coal and Chemicals	11.1	5.4	13.8	13.0	**21.1**	11.6
Machinery and Equipment	**30.6**	10.8	17.2	8.7	26.3	19.2
Other Manufacturing	13.9	**24.3**	13.8	13.0	5.3	15.8
Trade and Transport	8.3	10.8	6.9	8.7	**26.3**	11.0
Services, etc	8.3	10.8	3.4	**26.1**	-	9.6

Characteristic	Fast	Good	Modest	Zero	Negative	Average
Region						
Wingecarribee	**13.9**	13.5	6.7	4.3	10.0	10.3
Shoalhaven	16.7	**24.3**	23.3	8.7	25.0	19.9
Far North Coast	19.4	13.5	**26.7**	26.1	15.0	19.9
Northern	12.5	16.2	10.0	**17.4**	5.0	11.0
Murrumbidgee	8.3	8.1	**20.0**	4.3	**20.0**	11.6
Hunter	**22.2**	10.8	10.0	21.7	-	13.7
Central West	13.9	13.5	3.3	17.4	**25.0**	13.7
Strategic Orientation						
Clients, Products	33.3	**37.8**	34.5	34.8	21.2	32.9
Production process	2.8	10.8	-	-	**21.1**	6.8
Both	63.9	51.4	**65.5**	65.2	57.9	60.3
Strategy Changed	25.0	**32.4**	31.0	17.4	26.3	27.4
Primary Competitive Advantage						
Technical innovation	55.6	40.5	44.8	**56.5**	47.4	48.6
Product differentiation	25.0	10.8	**31.0**	26.1	15.8	21.2
After sales, client service	19.4	**27.0**	17.2	17.4	21.1	20.5
Market development	8.3	**18.9**	13.8	13.0	10.5	13.0
Production process	2.8	**13.5**	3.4	-	10.5	6.8
Price competitiveness	-	5.4	6.9	4.3	**10.5**	4.8
Production Strategy						
Mass production	1.1	22.9	24.1	22.7	**26.3**	21.0
Flexible, small batch	41.7	**45.7**	41.4	40.9	31.6	41.3
Flexible, differentiated	16.7	11.4	17.2	13.6	**21.1**	15.4
Customisation	**30.6**	20.0	**17.2**	22.7	21.1	22.4
Strategy Changed	**22.2**	17.1	20.7	22.7	10.5	19.6
Capital Expenditure Change						
Increased	66.7	62.9	67.9	**73.9**	52.9	66.0
Stayed same	19.4	28.6	14.3	21.7	**47.1**	24.1
Decreased	13.9	8.6	**17.9**	4.3	-	9.9

Source: Hodgkinson, et al. 2003, pp. 106-7 (revised)

Successful Exporters: Best Practice Model

We developed models of exporters and a 'best practice' exporter model. Due to data limitations, it was not possible to develop best practice models by sector. The best practice model represents firms which have been able to achieve sustained high levels of export growth. Best practice firms were defined as those that achieved good or fast export growth and had been exporting for more than five years.

The best practice firms used quite different strategies from firms who recorded average export performance and these strategies may have contributed to their sustained export success.

1. They had more clearly focused corporate strategies, whether on client needs and product development or on production costs and quality, and were more likely to have changed strategy recently.
2. Their competitive strategies were more likely to be clearly focused either on innovation, marketing or production, than those of other firms, which often used a mixture of strategies.
3. While technical innovation was an important source of competitive advantage, they had a higher emphasis on marketing strategies such as 'after sales and client service' and market development (advertising), or on the production process than other firms.
4. They were more likely to use flexible, small batch production techniques, and 63 per cent had increased capital expenditure in recent years.
5. They had higher levels of R&D activities involving product development and substantial changes to their production process. They were less likely to rely on self-development and more likely to source new technologies from outside their own firms (adapting other firms' products, licensing, transfers from parents, collaborations with public research institutions), but were not heavily involved in technology partnerships with other firms.
6. They were well linked into local information networks and hence were a potential source of advice to new exporters in these regions.

7. They were strong users of external sources of information, using international travel, service providers, meetings of business organisations, and especially trade and business magazines more than other firms.
8. They did not obviously follow particular exporting strategies but tended to adapt a strategic approach based on the particular needs of each market.
9. They only identified a small number of problems likely to affect future exports, which mainly related to remaining competitive against their rivals.
10. They had a higher emphasis on partnerships and collaborations, direct foreign investment, introduction of equity capital and e-commerce as export strategies than other firms. They also had a stronger overseas presence involving subsidiaries and joint ventures.

Summarising their unique strategies, it can be said that they have a clearer corporate focus, emphasise marketing, monitor external activities such as technological developments, rivals' behaviour and market information, are local networkers and regard export partnerships and overseas investment as important.

Young Exporters

Young exporters were firms which had been exporting for four to five years, and initially experienced rapid export growth. However, average export growth rates dropped substantially after five years, such that many firms which had been exporting for six or more years had significantly lower growth[2] (see Table 2). Firms appear to face major barriers to export after an initial period of high growth. In order to identify possible problems, the strategies used by this type of exporter are analysed by comparing them with the best practice model.

2 Firms which did not experience this drop in export growth after five years were included in the best practice model above.

Table 2: Years Exporting by Relative Growth in Exports

Years exporting	All Cases %[1]	(N2001)	Exported 1997 to 2001 %[2]	(N2001)
Three or less	172.10	39	77.53	3
Four or five	146.84	34	80.65**	21
Six to nine	30.21	27	28.27*	25
Ten or more	12.67	34	12.83*	32
F statistic	3.119°		7.598°	
Levene statistic	7.203°		8.039°	

Note 1. These high growth rates are affected by the presence of a number of new exporters which experienced high initial growth from a low base. Pre-export firms have been excluded.

Note 2. Data only from firms which had exports in all years 1996/7 to 2000/01.

* Significant differences among means at .05 (95%) level

° F statistic is significant at 0.05% level. ANOVA analysis is useful. Levene statistic is significant at 0.05% level so results are useful for policy purposes.

Source: Hodgkinson, et al, 2003, p. 98

The types of issues affecting these firms included:

- Using highly opportunistic exporting strategies to support a rapid expansion into a large number of overseas markets. A clearer strategy focusing on their more profitable markets and a stronger emphasis on product quality is required to sustain export growth.
- They identified a large number of concerns that they felt were likely to affect future exports, particularly exchange rate movements, rising labour costs, matching cost reductions by rivals, trade protection overseas, lack of investment funds, lack of information, and Government regulations. They thus recognised the problems inherent in their rapid expansion strategy, but generally did not know how to get advice to help overcome them.
- They felt relatively isolated, with one-quarter considering themselves to be 'on their own' in developing new market strategies. They needed much more sophisticated and specific advice than did new exporters, in that they faced more complex problems when attempting to move into new, less familiar markets.

These findings have important policy implications. Most NSW export support services are currently aimed at new exporters. This study found that support was largely appropriate for such firms. However, there are relatively few and generally expensive services available to firms such as the ones identified above, which are in the next phase of exporting. Government export and business programs need to be revised to broaden their scope to allow them to more readily include these firms. It is also important to look for more innovative ways of delivering specialist advice and overseas market information to firms in regional locations, at the time when they need it. We recommend that IT delivery options be investigated for this purpose.

Small Firms

A second area of concern was identified in the analysis of groups by firm size. A high proportion of regional exporters are small firms, 53 per cent had fewer than 20 employees in 2001. The current policy of encouraging new exporters means that the representation of small firms will increase. A number of issues regarding the strategies used by small firms emerged.

1. Small firms enter exporting based on the innovative qualities of their product/s. However, they are less likely to undertake new product R&D and development of their product range than larger firms, and hence have a lower capacity to develop new products to replace this current offering at the end of its life cycle. They thus face the possibility of losing their market position over time.
2. Small firms rely heavily on local networks to access information and had a relatively low use of external information mechanisms. However, even their use of local networking was lower than that of medium-sized firms. Thus, overall, operators of small firms are disadvantaged in accessing new market information.
3. Small firms are essentially market opportunists and use a 'scatter gun' approach to accessing foreign markets, often through internet sales. This results in many small value orders from each of a large number of countries. They thus tended to be relatively reactive exporters, without a planned export strategy.

Inadequate R&D, access to information, and future strategic development are characteristic of small firms as a whole, where management functions are concentrated in the hands of one or two people. Small firms need to grow to provide the resource base for the additional innovation, networking, investment and marketing activities necessary to sustain export growth. They thus need to undergo substantial organisational change, moving from family operated and controlled small firms to medium-sized enterprises run by a professional team of specialist managers, a cultural change many small business owners do not want to embrace.

The need to become larger in order to sustain export growth is a mantra that should be included in all small business advisory services. Organisational change including expansion of their management structure, continuous innovations to their product range, development of external market information networks and particularly international travel to visit clients, agents, etc., and developing processes to monitor market developments are needed if they are to sustain and expand their exporting activity. These factors have to be built into their business and export marketing strategies from the beginning, i.e. small firm operators have to expect to become medium-sized firms over time, if the disadvantages of size are to be overcome. As small firms are generally effective exporters, the revenues from their initial growth can be reinvested into the business to provide for a continuous development of technological and marketing capacity over time.

Conclusion

The discussion above provides a summary of how a 'best practice' model of regional exporters was developed. This model provides a set of guidelines that should be considered by less successful exporters and those beginning the process of exporting. Not all best practice strategies will be appropriate for all exporters due to different needs by sector, size, etc. However, it does provide a starting point from which firms can evaluate their current corporate and exporting behaviours. The discussion also demonstrates how such a model can be used to analyse the behaviour of groups of firms. By comparing their current strategies with those in the best practice model, potential problems that may affect these groups of firms can be identified, such as the isolation of regional 'young' exporters and the inadequate resource base of small exporters that may restrict further export growth.

Further, the best practice model provides a guideline to areas where programs could be amended to better meet the needs of regional exporters. In NSW, the ranges of business development and export support programs were generally found to provide the type of support required by regional exporters. However, there appeared to be a need to retarget these programs such that a broader range of firms could utilize their services. New ways of providing export market development advice to young exporters are required, which can deliver more specialised advice at strategic times in their market analysis processes. Small business advisory services to new exporters need to emphasise the importance not only of technological development and market analysis to enter export markets, but also to provide for continuous development of these capacities to sustain exports in the future.

Endnote

The results of the survey have been published in two reports. Copies of these reports are available on application to Ann Hodgkinson, University of Wollongong; email: annh@uow.edu.au

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