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EXPORT BARRIERS DURING THE PERIODS OF GROWTH AND RECESSION: THE MAJOR FACTORS AND PROPOSITIONS **

The majority of academics and practitioners agree that the international activities of companies are very important for the companies themselves as well as for their countries. However, only a rather small part of Lithuanian companies sell their products abroad. Export is influenced by a number of factors, all of which can be grouped into three categories: external factors, company-related factors and manager-related factors. These groups of factors were researched by the survey of Lithuanian companies that were engaged in export in 2006. The questionnaire included 70 questions that dealt with possible barriers for development of export activity. The survey identified the most important groups of factors as well as individual factors that limit the willingness of companies to be engaged in export activities. According to the survey, shortage of qualified workers appears to be the most important individual factor. Other important factors included a shortage of qualified employees with specific skills – qualified export managers and sales agents, as well as a lack of qualified managers. The following two important factors were low awareness of the company's brands in foreign markets and limited financial resources for advertising its products. The management of the companies admitted that "insufficient support from Lithuanian government" and "ineffective program for export support" were also two significant factors which did not help companies to cope with the aforementioned problems. In addition, lack of relevant information was indicated as a serious problem for export development.

The survey was performed during a period of stable economic development and growth. However, currently the situation is the opposite – the country is in a recession or even in a crisis. Companies lack working capital; they are under the necessity to reduce a number of employees. Wakasugi Ryuhei from the Institute of Economic Research, Kyoto University noticed that the financial crisis has widened from monetary and financial issues to problems in the real economy – notably reduced consumer spending and private investment outlays. All this is spilling over into the labour market. A weak employment market tends to induce protectionist actions as government seeks to shield the domestic market from foreign competition. C. Fred Bergsten, director of the Peterson Institute for International Economics, predicted a risk that the world trade would fall sharply and produce a downward spiral of global growth. That could create all types of trade distortions: increased import barriers, higher export subsidies, domestic subsidies that discriminate against foreigners, structures on

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international lending. According to Dr. Vo Dai Luoc, the former Head of the Economics and Politics Research Institute, in a crisis exporters compete with each other mostly in terms of prices, while brand name, quality, design, and distribution networks become less important at this moment. Therefore, one of the big barriers might be the foreign exchange rate.

It is obvious that Lithuanian companies will face all or some of the problems in their attempts to export their products during the nearest period. Though extensive research data from the current time period is not yet available, the findings from the previous research can be put against theoretical and practical evidence of recession, which makes it possible to develop some scientific propositions.

Keywords: export, barriers for development of export, recession

INTRODUCTION

Starting from after the World War II, the liberalization of the economy as well as growing international integration has boosted the export activities of companies of various industries. The growth rate of exports well exceeded the growth of the economies themselves. Due to globalization, the importance of exporting activities is increasing. Export is considered important for macroeconomic stability of countries, and, even more importantly, plays a major role in increasing living standards.

On the other hand, the development of exports is important for individual enterprises, since it is typically related with improvements of financial status, technological development and eventually, their overall competitiveness. Compared to other types of company internationalization activities, exporting is considered as relatively low risk and low investment strategy. Because of these characteristics and their high flexibility, exporting activities are often considered to be the most appropriate type of internationalization for small and medium enterprises (SMEs).

Despite the mentioned advantages of exporting, this type of activity does not always seem advantageous to companies. In Lithuania, where the majority of companies belong to the category of SME, the number of exporting companies from 2002 to 2006 decreased by 12 percent. Though the volume of exports is growing, the decreasing number of exporting companies desires attention and analysis of reasons of this trend.

Exporting behaviour analysis as well as factors that influence willingness to export was a subject of numerous analyses (Leonidou and Katsikeas 1996; Leonidou 1995a; Morgan and Katsikeas 1997, Mavrogiannis et al. 2008, Tesfom and Lutz 2006). The studies have covered various countries and sectors, well established companies and born globals. According to the main aspect of analysis, studies can be grouped into three large categories: a) analyses of company-external factors, b) research of internal factors within companies, and c) factors that are directly related with company managers and management.

In the majority of cases, the factors that influence exporting activities have been researched in rather favourable economic circumstances. However, currently the situation is the opposite – the country is in a recession or even in a crisis. Therefore, **the purpose of this article is to summarize findings of a qualitative survey among Lithuanian companies and put them against the realities of the current economic situation, thus developing propositions about expected developments**. In addition to propositions themselves, it outlines directions of further empirical analyses.

1. THE BACKGROUND FOR STUDYING EXPORT BARRIERS

Traditional theories of international trade mainly treat the exchange of products between countries as a comparative advantage, which basically means that the process is driven by the different opportunity costs of production across countries. As Bernard with his colleagues summarize, this literature can be grouped into two streams, based on two sources of comparative advantage (Bernard et al. 2007). The first one (Ricardian) concentrates on variation in countries' productivity, the second (Eli Heckscher and Bertil Ohlin) deals with a comparative advantage that is based on different relative factor endowments between countries. In both cases, international trade encouraging or restricting factors are analyzed at the level of countries or industries, without paying attention to the level of an individual company. Newer theories (Paul Krugman, Elhanan Helpman and William Ethier) focus on consumer preferences and product differentiation as drivers of international trade (Bernard et al. 2007). However, more and more studies started to focus on an individual firm level or even on the level of perceptions of its management (Leonidou 1995b).

As R. E. Morgan (1997) concludes, such studies lead to the development of general equilibrium theoretical models of firm heterogeneity and international trade. One type of models developed by Bernard et al. (2003) has introduced stochastic firm productivity into the multi-country version of the Ricardian model of old trade theory analyzed in Eaton and Kortum (2002). Another type of models developed by Melitz (2003) has introduced firm heterogeneity into the Krugman (1980) model of new trade theory.

Based on these two types of models, an individual firm and factors that either encourage or limit its international activities started to be an important subject of the research. In that context, export barriers started to be also analyzed at the level of an individual firm and its managers' perception. The literature associated with this research traditionally concentrates on two forms of export barriers: problems that discourage firms from engaging in export activities and problems experienced by firms already having initiated export operations (Morgan 1997).

The earlier empirical studies made five general conclusions about export barriers that are encountered by firms. First, there are perception differences between managers of non-exporting firms and exporting firms. Second, there are differences not only between firms that are at different export stages, but also among firms at the same stage of export development process. Third, the external environmental factors of each country make significant differences on perception of export obstacles. Fourth, the role of industry-specific factors is also noticeable. Fifth, the size of the firm often determines the nature and influence of export barriers, with smaller firms feeling their inhibiting impact more strongly (Smith et al. 2006). These five conclusions can be regrouped and condensed into three main aspects that may guide further research: analysis of a) company-external factors, b) company-internal factors, and c) factors that are directly related with managers and management of a firm.

2. THREE TYPES OF FACTORS THAT LIMIT EXPORTING ACTIVITIES

Among ***external (environmental)*** issues, one of the important factors is the size of the domestic market (Cavusgil and Zou 1994; Welch and Luostarinen 1988). The smaller the domestic market is, the less possibilities of economies of scale a company experiences without internationalization. Therefore foreign markets are seen as a natural extension of domestic ones for achieving desired effects of economies of scale (Chang 1995). Naturally, narrowly specialized companies experience this necessity sooner than others (Lindqvist 1991). The availability of information about foreign markets is also a very significant factor that predetermines a company's willingness to export (Hedlung 1985; Diamantopoulos et al. 1990). The information needs not only to include data about the size and structure of the considered foreign markets. Equally important are judgements about political legal infrastructure and overall stability, social and cultural aspects, technological development and overall business infrastructure. Lack of information on at least some of these issues can significantly decrease consideration to develop exports (Czinkota and Rokainen 1995). One more important external factor is competition both in the domestic and foreign markets (Nordstrom and Vahlne 1985). Fierce domestic competition may 'push' companies towards the search of foreign markets, whereas relatively less intensive competition in foreign markets can create 'pull' effects. The oligopolic structure of the markets here is considered as being specifically important (O'Grady and Lane 1996). However, international activities (including exporting) are generally considered as being more risky than domestic ones (Brooks and Rosson 1982). Therefore companies are looking for all means of sharing these additional risks as well as for additional pay-backs for more risky activities. One of the options to encourage starting exports in this context is successful export promotions from the domestic government. The activities of governments range from direct participation in financing of certain exports-related activities and tax privileges to influencing a favourable rate of currency exchange (Bauerschmidt et al. 1985). The other type of governmental activities typically include regulations of tariff and non-tariff barriers (Dichtl et al. 1990; Ebling and Janz 1999).

The external factors often are relatively similar to many companies, but some of them start international activities, whereas others do not. This means that external factors create just the context within which individual companies can apply their own capabilities and develop certain strategies. Therefore company-internal factors play their important role here as well. Probably the most analyzed factor among the ***company-internal*** ones is the size of a company (Johanson and Vahlne 1990; Van Dijk 2001). In some cases, this factor was related with the overall experience of the company, which influences its readiness to go international. However, this conflicts with the type of companies that began their international operations from the very start of their activities, the so-called born globals (Knight and Cavusgil 1996; Madsen and Servais 1997). Therefore equally important ones are specific capabilities (Cavusgil 1984), innovation activities or technological aspects (Lindqvist 1991). The lack of adequate technologies was reported as the major restrictive factor for developing exports. This can correlate with the lack of financial resources, which also are typically linked with a lack of working capital. External financing is not always appropriate, especially in the case of SMEs. Also, external financing often increases operationial costs. This issue was extensively analyzed by W. Viviers and S. Soontiens. They defined and separately analyzed the major categories of costs (infrastructure, labour, production, financing, transportation, marketing) and disclosed the highest importance of costs of labour and financing (Viviers and Soontiens 1998). However, in another study A. Bauerschmidt, D. Sullivan and K. Gillespie stressed the importance of transportation costs (Bauerschmidt et al. 1985). Another very important company-internal factor is the availability of skilled and experienced staff in a company. This was disclosed in a survey performed by the Estonian Export agency. The relationship between characteristics of staff and export intensity was disclosed by G. K. Helleiner, K. Lal, A. B. Bernard and J. Wagner (Helleiner 1995; Lal 2002; Bernard and Wagner 1998). Numerous surveys indicated low quality of outputs being the major restrictive factor in export development (Viviers and Soontiens 1980). Finally, underdevelopment of strategy is perhaps the most integrative factor that also restricts company readiness to develop its international activities and use the potential of international markets (Trimeche et al. *2002*).

Among the internal factors, a very special role is taken by the personal characteristics of the decision makers. ***Manager-related factors*** often are categorized as a special group, especially in the case of SMEs. The decision makers are responsible for the development of all strategies, including internationalization. The direct involvement of the top manager in exporting activities is directly related with the company's success in international markets (Cavusgil and Kirpalani 1993; Cavusgil and Zou 1994; Madsen 1989).

Since exporting activities are often associated with higher risks, risk-averse managers are less willing to develop international activities (Simpson and Kujawa 1974; Brooks and Rosson 1982). However, such a risk aversion tends to gradually decrease with the growing learning process and experience of international operations (Pedersen and Petersen 1998). Therefore, personal experience may become the factor that supports continuation and development of international operations (Andersen and Coughlan 1986). A number of researchers made attempts to disclose more personal characteristics of managers that limit their interest to develop the international activities of their companies (Dichtl et al. 1990). Ph. Norman (Norman and Wickramasekera 1995) concluded that actively exporting companies are typically managed by younger managers; many of them were born abroad and had a relatively better education as well as managerial experience. Other authors observed that willingness to start international activities can be linked even with the question whether the top manager knows specific foreign languages. The British Chamber of Commerce even discovered a relationship between knowing the foreign language and the results of exporting activities.

3. FACTORS THAT INFLUENCE EXPORT ACTIVITIES OF LITHUANIAN COMPANIES

A survey of Lithuanian companies was performed in 2006. It attempted to identify the factors that had an impact on the development of export activities of Lithuanian companies. The questionnaire included 70 items about various problems of export development and their importance was measured using a 5-point scale. All these items were grouped into five sections:

1) company-external factors (17 items, 5 of which were excluded to get higher reliability of scale; Cronbach's alpha = 0.725),

2) company-management factors (14 items, Cronbach's alpha = 0.750),

3) factors related with lack of information about foreign markets (12 items, Cronbach's alpha = 0.790),

4) factors related with the company's marketing activities (14 items, Cronbach's alpha = 0.743),

5) characteristics of managers (8 items, 1 of which was excluded to get higher reliability of scale; Cronbach's alpha = 0.850).

This grouping reflects the three groups of factors described above; the second group (internal factors within companies) is broken into smaller subcategories: company-management factors; factors related with lack of information about foreign markets and factors related with a company-marketing activities.

The analysis was performed on the basis of 64 completed questionnaires that were received in response to mailing 300 exporting companies. The importance of factor groups differed insignificantly. The most important group of factors was factors related with lack of information about foreign markets (m=3.2777). The other two important groups referred to company-external factors (m=3.2434) and company-management factors (m=3.2259). The less important groups were related with characteristics of managers (m=2.9740) and with company-marketing activities 2.9436.

The correlation analysis showed links between some groups of factors (Table 1). Company-external factors had a positive correlation with lack of information about foreign markets ($r=0.390$, $p< 0.05$). In addition, lack of information about foreign markets had a rather strong correlation with the company’s marketing activities (r=0.559, $p< 0.001$). Finally, the last one had a positive correlation with characteristics of managers (r=0.337, $p< 0.05$).

Table 1

Correlation between the groups of factors

		Company-external	**Company manage-ment**	**Lack of information about foreign markets**	**Company-marketing activities**	**Characteristics of managers**
Company-external	Spearman's rho	1.000				
	Significance (2-tailed)	0.000				
Company-management	Spearman's rho	0.268	1.000			
	Significance (2-tailed)	0.090	0.000			
Lack of information about foreign markets	Spearman's rho t	0.390	0.131	1.000		
	Significance (2-tailed)	0.014	0.426	0.000		
Company-marketing activities	Spearman's rho	0.209	0.255	0.559	1.000	
	Significance (2-tailed)	0.202	0.118	0.000	0.000	
Characteristics of managers	Spearman's rho	-0.036	0.284	0.011	0.337	1.000
	Significance (2-tailed)	0.825	0.075	0.947	0.038	0.000

Source: data gathered by authors

The analysis of each factor enabled to better understand possible barriers for development of export activity. All factors were grouped according to their importance. According to their level of importance, two groups of factors were indicated. The group that is considered the most important included factors that were individually ranked between 3.50 and 4.00 points on the five-point scale (Table 2). Out of 13 of the most important factors, four factors were related with company-external factors and the same number of factors – with the company-management group; three factors were related with lack of information about foreign markets and two factors – with the company's marketing activities.

Table 2

The most important factors for companies' export development (averages)

No.	Factor	Importance	Group of factors
1	Lack of qualified employees	3.98	2
2	Low awareness of the company's brand in foreign markets	3.82	4
3	Lack of qualified export staff	3.8	2
4	Poor understanding of final consumers in foreign markets	3.79	3
5	Competition from "low cost" countries (China, India)	3.76	1
6	Insufficient resources for advertising of brands in foreign markets	3.72	4
7	Tax concessions for investments in new technologies	3.65	1
8	Insignificant support of government for export development	3.63	1
9	Lack of qualified high level managers	3.63	2
10	Lack of information about potential clients	3.62	3
11	Lack of qualified sales staff	3.59	2
12	Lack of information about potential partners	3.56	3
13	Ineffective governmental program for export support	3.54	1

Source: data gathered by authors

Among the most important factors, individually, the shortage of qualified employees was evaluated highest. Two other important factors were related with the shortage of other types of employees: qualified export and sales staff, qualified upper level managers. Poor awareness of brands and insufficient resources for advertising were discovered to be other important factors that had a negative impact on the company's ability to export. Then came such factors as "insignificant support of government for export development" and an "ineffective governmental program for export support", even though these two activities were supposed to stimulate export activities of the companies.

The factors associated with lack of information also appear among the most important ones. Managers of Lithuanian companies had insufficient information about final consumers and potential clients in foreign markets. Partners in foreign markets could help Lithuanian companies in gathering such information, however, lack of information about potential partners was another important problem. Tax reliefs on investments in new technologies – another important factor – could cut costs and would enable Lithuanian companies to compete on the basis of low costs. However, competition from „low cost“ countries was one more significant factor.

The next group of factors consisted of factors, the importance of which varied between 3.29 and 3.49. Out of 11 factors, four were related with a lack of information about foreign markets, three – with company-external factors, two – with the company's marketing activities and the same number of factors – with characteristics of managers (table 3).

Table 3

Relatively important factors for companies' export development (averages)

No.	Factor	Importance	Group of factors
1	Lack of product certificates	3.49	1
2	Poor understanding of business possibilities in international market	3.44	3
3	High cost of logistics for selling products abroad	3.41	4
4	Lack of information about legal situation in foreign country	3.36	3
5	Bad knowledge of foreign languages among high level managers	3.33	5
6	Lack of information about market potential in foreign country	3.33	3
7	Lack of a proper export strategy	3.32	4
8	Competition due to better financed products in other countries	3.3	1
9	Lack of governmental loans for acquiring new technologies	3.3	1
10	Lack of information about non-tariff barriers	3.26	3
11	Management have not enough experience in exporting	3.25	5

Source: data gathered by authors

Lack of product certificates was almost as important as factors from the first group of factors. Factors like a poor understanding of business possibilities in international market, lack of information about legal situation and market potential in foreign country, once more showed the importance of information for the development of exports. It is worth noticing that companies evaluated the factor "lack of information about non-tariff barriers" as a rather important one. However, non-tariff barriers were evaluated less significantly. Lack of various information about foreign markets could be a reason for the absence of a proper export strategy in a company and that was quite an important factor for them. In the case when companies export their output in small quantities, the costs of logistics became very high. Since 10% of Lithuanian exporters account for approximately 70% of Lithuanian export, costs of logistics was an important factor for a large number of companies.

Several significant factors were related with characteristics of managers. Poor knowledge of foreign languages and lack of experience in exporting were quite important factors among those having a negative impact on the companies' export.

Therefore we can conclude that out of the 24 important factors, 7 factors belonged to company-external factors and the same number of factors – to the group that deals with lack of information about foreign markets; four factors were related to company-management factors and the same number of factors – with a company's marketing activities, and just two factors were related with characteristics of managers.

4. FACTORS THAT INFLUENCE EXPORT ACTIVITIES DURING A RECESSION OR A CRISIS

The survey was performed during a period of stable economic development and growth. However, currently the situation is different, and many external influences are reflecting the realities of recession or economic crisis. Economic crises change the behaviour of consumers, companies (competitors) and governments. During such periods, consumers feel less secure of their employment and care more about their financial well-being (Shama 1978). Consumers also adapt their shopping behaviour and habits to the changing economic conditions (Ang 2001, Zurawicki and Braidot 2005). According to Vo Dai Luoc, the former Head of the Economics and Politics Research Institute, in a crisis, exporters compete with each other mainly in terms of prices, while brand name, quality, design, and distribution networks become less important at this moment.

Previous crises showed that companies are influenced by economic crises in many different ways. Some are forced to totally close down operations, others – to reduce their manufacturing capacities because of insufficient consumer demand for their products and services, combined with fierce competition in the marketplace. Companies are also forced to lay off some of their personnel and reduce wages (Zehir and Savi 2004). Moreover, managers are often forced to make decisions about stopping investment projects. However, it is observed that companies that spend proportionately more on R&D during a recession perform significantly better than others (Morbey and Dugal 1992). W. Ryuhei from the Institute of Economic Research, Kyoto University noticed that the financial crisis has widened from monetary and financial issues to problems in the real economy – notably reduced consumer spending and private investment outlays (Ryuhei 2009).

All this is spilling over into the labour market. A weak employment market tends to induce protectionist actions as governments seek to shield the domestic market from foreign competition. F. Bergsten, director of the Peterson Institute for International Economics states that there is a risk that the world trade would fall sharply and produce a downward spiral of global growth. That could create all types of trade distortions: increased import barriers, higher export subsidies, domestic subsidies that discriminate against foreigners (Bergsten 2009).

It is obvious that the observed influences will hit Lithuanian companies as well. Therefore, some factors that used to restrict export will change, and their relative importance will differ from the one discovered during the survey. We can predict that shortage of various types of employees will gradually become a relatively less important factor due to growing overall unemployment. At the same time, declining markets will increase the intensity of competition and especially low-price-based competition. Therefore, competition from the so-called lower cost countries will be an even more an important factor for Lithuanian companies.

Also, companies will increasingly need more up-to-date information about foreign markets (their potential, consumers, clients, partners), because the dynamics of the markets is becoming very rapid, and previous information becomes obsolete very fast.

One more outcome of the crisis is an increasing shortage of working capital. Thus, the importance of such factors as governmental programs for export support, various tax reliefs, credits for export will grow.

Due to a decreased scale of operation, companies might lose the effects of economies of scale, and various types of costs might increase. On the other hand, companies tend to reduce their costs in all possible ways, including labour cost minimization. This might offset trends for the cost increase.

However, only companies with substantial financial advantages (deep pockets) would be able to look for really advantageous ways of cost-reduction through extensive investments into R&D and active marketing activities.

Various authors noticed that governments are inclined to use non-tariff barriers to protect local markets. Hence, the factor of non-tariff barriers will be very important for Lithuanian companies. Another related threat is significant fluctuations of currency rates (not only the domestic currency). This would normally trigger hedging options, but some companies might tend to reduce risks simply through decreasing international activities.

Among the personal characteristics of managers, analytical abilities and the ability to flexibly react to changing circumstances might become of critical importance.

CONCLUSIONS AND PROPOSITIONS

The analysis of previous surveys allowed us to identify a number of factors that have an impact on the exporting decisions of companies. Almost all of these factors belonged to the three groups – company-external factors, internal factors within companies, and factors that are directly related with company managers. The survey of Lithuanian companies showed that the lack of different types of employees was the main factor influencing export decisions during the growth stage of economy. Other important factors were related with competition from "low cost" countries and the lack of information about foreign markets. However, the importance of various factors might be different during a recession. Although extensive research data from the current time period is not yet available, the findings from the previous research can be put against theoretical and practical evidence of recession and make it possible to develop the following scientific propositions.

First, we propose that the importance of the factors that are related with the shortage of various types of employees will decrease.

Second, the importance of non-tariff barriers as well as state support of exports will become more important.

Third, shortage of financial resources for advertising, market research and other purposes will become increasingly important and restrict abilities to compete on other bases, except low price. Therefore low-price competition might prevail within the nearest period.

Finally, we propose that the individual characteristics of managers (experience, analytical, flexibility) might play an increasingly important role, especially in the case of smaller companies.

We believe that all these propositions are relevant, but require much more thorough analysis both in Lithuania and in other economies. It is possible that the evidence of the Lithuanian context will be relevant for some specific type of countries and generate some broader conclusions.

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