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FACTORS THAT RESTRICT EXPORTS OF SMALL AND MEDIUM-SIZED FIRMS: THE ROLE OF EXPORT FINANCING

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ABSTRACT

The purpose of this study, based on a survey of 354 Florida companies, was to assess factors that limit exports, with particular focus on the different types of export financing that were the most difficult to obtain and the most used. Statistical analysis was used to determine the significance of responses given by different sized firms. Four of the top five factors that limited the ability to export were related either to the lack of available information on export opportunities or the unavailability of export financing. Foreign buyer credit and various unsecured loans were the most difficult to obtain, while commercial letters of credit were the most used. Public and private sector policymakers need to reevaluate their own export promotion programs and make the changes necessary to eliminate the various obstacles to exporting.

THE ROLE OF EXPORT FINANCING

Indications for some time have been that the United States has lost its ability to compete in world markets as indicated by the decline in the U. S. position in world trade and the loss of world market share in an increasing number of industries. For example, the approximately 5.5% of GNP that the U. S. exports is paltry compared to three of its major trading partners, Germany (26%), Canada (25%) and Japan (10.5%) (10). This is particularly disturbing for a few reasons. First, there are tremendous opportunities for exporting as indicated by the fact that although the U. S. is the largest and richest single market, the GNP of the rest of the world is four times as large (10). Another reason for disappointment with U. S. export performance is the U. S. Department of Commerce estimate that each $1 billion in exports generates 25,000 jobs. Increasing exports, therefore, should be a top priority for public and private policy makers.

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Any substantial improvement in the U. S. export performance will require the increased involvement of small and medium-sized firms. It is estimated that only 10% of U. S. exports are generated by small businesses; moreover, slightly more than 3% of U. S. businesses account for 70% of the exports (12). But small and medium-sized businesses exhibit the fastest growth rates, which are reflected in the generation of greater numbers of new jobs than large firms (4, 12). Small and medium businesses also produce a wide variety of goods and services, often of exceptionally high quality. They possess the greatest degree of flexibility, which allows them to profitably penetrate small markets (and small niches in large markets) using strategies that are difficult for large companies to implement. Moreover, these firms are able to adapt quickly to fluctuating markets. It would appear that these small and medium-sized firms have a major role to play in the global market.

In many cases the export potential of small and medium-sized firms is not being reached. The purpose of this paper is to assess various factors that restrict the ability of small and medium-sized businesses to export. Particular attention is given to the role of the lack of availability of export financing, mentioned by numerous studies as one of the major export obstacles.

It is the position of this paper that the lessons learned from experienced exporters in regard to obstacles that limit their—ability to export—types of financing they find most difficult to obtain, and types of financing they most widely use are of value to: 1) other exporters in terms of "comparing notes;" 2) potential exporters by identifying the hurdles that must be overcome as well as the most successful routes to take in pursuing export financing assistance (see 2, 7, 8); and 3) public policymakers by assisting them in reevaluating and fine-tuning policies designed to remove impediments and promote exports by small and medium-sized businesses.

Literature Review

A number of studies have focused on obstacles to exporting and have ranked those obstacles from most to least important. Bilkey reported that the most frequent, serious obstacles to exporting were *insufficient finances,* foreign government restrictions, insufficient knowledge about foreign selling opportunities, inadequate product distribution abroad, and a lack of foreign market connections (1). In a 1980 survey of firms in the Pacific Northwest, O'Rourke suggests that the chief drawbacks are lack of the company's own resources and lack of information. Current exporters in that study were concerned about transportation costs, trade barriers, lack of surplus product, small size of the firm and *limited capital,* foreign competition, and red tape (11). Communications, sales effort, providing repair service, information on business practices, obtaining financial information, gathering marketing information, handling documentation, *financing,* and providing technical advice were identified by Czinkota and Johnston as primary obstacles (2). Edmunds and Khoury reported in their study that the most common problems were establishing linguistic competence in marketing, becoming familiar with international credit instruments and foreign import regulations, and gathering knowledge of foreign markets. Exogenous factors such as the strength of the U.S. dollar, and some export restraints imposed by several countries were listed by some respondents as problem areas, but these were not of a lasting nature (5). In a 1984 survey of New York and New Jersey firms that export to Europe, Holden reported that problems, present and expected, were dollar strength, EC weakness, EC political actions, Washington obstacles, *lack of export finance,* and third country competition (7). Hester found the biggest obstacles to be the lack of knowledge of foreign markets, *limited financial resources,* and the strength of the U.S.

dollar (6). A study of the export activities of small Swedish firms reported that the most important obstacles were selecting a reliable distributor, communicating with foreign customers, foreign currency restrictions in different countries, government barriers, and political instability in foreign markets. Only the larger, most active exporters also considered external factors such as foreign currency restrictions in different countries and governmental barriers when planning their export drives (9). Knowlton blames the limited amount of exporting by small-and-medium sized business on myopia (sell between the Atlantic and Pacific and no farther), the degree of hard work required for exporting, language, regulations, etc., *financing*, longer negotiations, payoffs, and foreign distribution system (10). In a study by Dichtl and others, based on questionnaires and in-person surveys conducted in Finland, Japan, Korea, and South Africa, the rankings of obstacles were as follows: pricing, competitive situation, distribution system, personnel, market development costs, import regulations, language, market research, customer service, non-tariff trade restrictions, necessary investments, and supply of information (3). And finally, Kathawala et al. found that the most serious obstacles were general labor costs, the need for greater tax benefits, fewer government regulations and trade barriers, less financing, lower dollar valuation, assistance in locating agents, and reduction of product liability costs (8).

Purpose and Method

Most studies have cited the lack of export financing as one of the major obstacles to exporting by small and medium-sized firms. The purpose of this study was to identify and assess the importance of the factors that limit the exports of small and medium-sized exporters. The primary focus was to determine and rank-order the specific types of export financing that were the most difficult to obtain and the most widely used by these exporters.

This study, done in collaboration with the Bureau of International Trade and Development of the State of Florida Department of Commerce, was part of a larger study of the various aspects of the international activities and problems of small and medium-sized businesses. The State of Florida, following the lead of other states such as California and Illinois was primarily interested in gauging the need for a state-supported export financing facility for small and medium-sized firms.

The questionnaire was designed 1) to obtain a wide range of information about the export and non-export international activities and problems of small and medium-sized companies, and 2) to encourage responses from those firms actively engaged in such activities but not from firms whose activities were exclusively domestically based. The questionnaires were addressed to the CEO's of the companies and were either completed by the CEO or his (her) designee (primarily Executive VPs, VPs, or Directors of International operations).

The survey was mailed to 3,513 companies drawn from the Bureau's "Trade Lead Referral Program" and "Trade Industry Program" lists, which had no indication as to the exporting activities of the companies. Of these, 406 questionnaires were returned which represents a response rate of 11.55%. It was felt that the response rate was sufficient not to require follow-up to increase the sample size. Of the 406 responses, 52 were unusable for this study because of missing data, or because sales exceeded $100 million, or the company was not involved in exporting.

The Small Business Administration defines "small business" as 500 employees or less for manufacturing firms and 100 employees or less for service firms. In this study, 32 firms had more than 100 employees and 4 firms had more than 500 employees. All of these firms were grouped in the "medium category." However, because there is no universally accepted definition of "small" (or "medium"), many previous studies have used various schema to classify simply companies according to size (2, 5, 7, 8, 9, 11). Using a similar convention, the firms in this study were grouped into three categories based on volume sales: 1) *very small* - less than $1 million; 2) *small* - between $1 and $10 million; and 3) *medium* - between $10 million and $100 million. Data analysis consisted of frequency distributions and statistical tests, i.e. Scheffe test, Spearman Rank Correlation Coefficient, and Chi-Square test.

Table 1

Profile By Size Of Firm

	Sales Volume			
	Less than $1m	$1m-$10m	$10m-$100m	Total
Number of firms	115	185	54	354
Percentage of firms	33	52	15	100
Average number of employees	5	29	203	48
Average age of firm (yrs.)	11	18	31	18
Average export experience (yrs.)	8	12	14	11

Results

Firm profile. One third of the firms had sales of less than one millions dollars, and slightly more than half had sales of between one and ten million dollars. On average the companies had 48 employees, were 18 years old, and had 11 years of export experience. There were, of course, differences between companies of dissimilar sizes. The larger the company, the more employees it had and, as would be expected, the older it was, and the more export volume and experience it had.

Factors that limit the ability to export. The credit worthiness of the foreign buyer (related to export financing) and opportunities in the other country (possibly a function of information availability) were ranked as the two most important factors generally and by each sized group. These were followed, overall, by information on specific sales, price of U.S. goods, and availability of export financing. There was substantial variation among companies of different sizes in the levels of importance and the rankings of the remaining factors. For example, the smallest firms ranked the lack of availability of export financing third, compared to a ranking of fifth and seventh for the two larger sized firms respectively. Small firms also ranked their top five factors as important to very important, while the two larger sized firms did not view the factors as quite as important. In general, it appears that the smaller the firm the more the factors were seen as obstacles.

Table 2

Factors That Limit The Ability To Export

	Less than \$1m	\$1m-\$10m	\$10m-\$100m	Total
		Mean score* (percentage of firms)		
Credit worth foreign buyer	1.72 87%	1.67 96%	1.71 96%	1.69 93%
Opport. in other country	1.75 84%	1.90 94%	2.00 98%	1.88 92%
Info on specific sales	1.90 84%	2.01 91%	2.08 91%	1.99 89%
Price of U.S. goods	1.95 89%	2.06 97%	2.12 94%	2.04 94%
Avail. of Fin for Exp[abc]	1.79 88%	2.14 95%	2.54 96%	2.09 93%
Market Research	2.18 85%	2.32 92%	2.26 98%	2.27 91%
Foreign Trade barriers	2.43 88%	2.29 94%	2.28 93%	2.33 92%
Quality of U.S. products[ab]	2.40 83%	2.68 92%	3.02 89%	2.65 88%
U.S. Gov't restrict on exp	2.81 85%	2.98 92%	2.92 96%	2.92 90%

*(1 = very significant; 4 = insignificant)

Scheffe Test: Difference between
[a] is less than \$1m and \$1m-\$10m is significant at .05 level
[b] is less than \$1m and greater than \$10m is significant at .05 level
[c] \$1m-\$10m and greater than \$10m is significant at .10 level

The Scheffe test, however, showed that statistically, only the perception of the impact of the availability of financing for exports and the quality of U. S. products differ significantly. The Spearman Rank Correlation Coefficient supports this in that there was a positive, although slight, correlation between size of firm and the availability of export financing (.23) and size of firm and quality of U. S. products (.17).

Table 3

Export Financing Assistance Most Difficult To Obtain

	Less than $1m	$1m-$10m	$10m-$100m	Total
	Number of firms (percentage of firms)			
Foreign Buyer Credit	31 27%	56 30%	9 17%	96 27%
Unsecured Loans*	43 37%	45 24%	4 7%	92 26%
Working Capital Loans*	34 29%	51 28%	2 4%	87 25%
Pre-export Financing*	39 34%	43 24%	2 4%	84 24%
Ex-Im Bank Guarantees	23 20%	30 16%	4 7%	57 16%
Commercial L/C	16 14%	34 18%	6 11%	56 16%
FCIA Insured Loans*	10 9%	26 14%	2 4%	38 11%
Secured Loans*	12 10%	21 11%	0 0%	33 9%
Bankers' Acceptances	16 14%	17 9%	0 0%	33 9%
Performance/Bid Bond L/C**	8 7%	21 11%	1 2%	30 8%
Doc. Export Collection	5 4%	14 8%	1 2%	20 6%
Other	1 1%	1 1%	2 4%	4 1%

Chi-Square Test:
* Significant at the .05 level
** Significant at the .10 level

Finally, it is interesting to note the very low rankings given to foreign trade barriers and U. S. government restrictions.

Most difficult types of export financing to obtain. As was discussed above, Table 2 showed that the largest firms ranked the lack of availability of export financing seventh and rated it between important and not important. This perception by the largest firms of the non-importance of the availability of financing as a factor is consistent with the generally low percentage of these firms that cite any of the various types of financing as difficult to obtain.

In terms of the difficulty of obtaining specific types of financing, foreign buyer credit was ranked number one, both overall and by the two largest groups of companies. Apparently, there are a desire and expectation by exporters that foreign buyers provide the financing, and these buyers have significant problems in doing so, particularly when there is no letter of credit involved. Various types of unsecured loans, including working capital loans and pre-export financing, ranked second through fourth overall. For the smallest firms, unsecured loans ranked as the most difficult to obtain. Export-import bank guarantees ranked fifth overall and by the smallest exporters, while ranking sixth and fourth by the next two largest firms respectively. This relatively low ranking for "Ex-Im" guarantees is disappointing not only because it is the bank's raison d'etre but also because of its recently stated increased focus on smaller exporters.

The Chi-Square test shows that the differences in the rankings by different sized companies are statistically significant for six of the twelve types of export financing that are most difficult to obtain. It is shown that the smaller two groups have a much tougher time when compared to the larger group of companies.

Types of export financing used. Commercial letters of credit are by far the most widely used form of export financing, overall and by each group of firms. Rankings by the different sized firms of the other types of financing used vary. Again, the Chi-square test shows that these differences based on size are statistically significant for seven of the twelve types of export financing used. Secured loans, foreign buyer credit, unsecured loans and documentary export collections followed in the overall rankings. Foreign buyer credit, which ranked third overall and fourth, third and second by various groups respectively, had been rated the most difficult to obtain. Apparently, in this case the level of difficulty did not restrict usage to the extent that may have been expected. The smallest firms had ranked unsecured loans as the most difficult to obtain, yet ranked them as the second most used form of financing. Again, difficulty appears not to have been a total deterrent to usage. The largest firms rated some type of buyer credit, with or without letter of credit, as their top two types of financing used. Rather disappointing was the extremely low usage of export-import bank guarantees and FCIA insured loans. This was not unexpected in view of the extent of difficulty in obtaining "Ex-Im" loan guarantees, as mentioned earlier. In general, the smaller the firm the less the use of these facilities.

Reasons offered by the respondents for the problems that they had in obtaining export financing were as follows: no banks were interested, the difficulty in obtaining and completing appropriate forms, banks' lack of export financing expertise, and the company's own lack of collateral. Again, these comments came primarily from the smaller two groups of firms.

Table 4

Export Financing Assistance Most Used

	Less than $1M	$1M-$10M	$10M-$100m	Total
	Number of firms (percentage of firms)			
Commercial L/C*	53	117	36	206
	46%	63%	67%	58%
Secured Loans*	19	53	3	75
	16%	29%	6%	21%
Foreign Buyer Credit	17	35	9	61
	15%	19%	17%	17%
Unsecured Loans*	23	32	1	56
20% 17% 2% 16%				
Doc. Export Collection	9	28	9	46
	8%	15%	17%	13%
Performance/Bid Bond L/C	7	21	5	33
	6%	11%	9%	9%
Working Capital Loans**	6	23	4	33
	5%	12%	7%	9%
Bankers' Acceptances*	3	20	6	29
	3%	11%	11%	8%
Pre-export Financing	11	11	3	25
	9%	6%	6%	7%
Ex-Im Bank Guarantees*	2	12	6	20
	2%	6%	11%	6%
FCIA Insured Loans*	2	8	6	16
	2%	4%	11%	5%
Other	2	3	1	6
	1%	2%	2%	2%

Chi-Square Test:
* Significant at the .05 level
** Significant at the .10 level

Table 5

Importance Of Financing Maturity

	Less than $1m	$1m-$10m	$10m-$100m	Total
	Mean score (1 = very important) (percentage of firms)			
Short Term (1-6 mos.)	1.12	1.14	1.34	1.16
	63%	59%	54%	60%
Medium term (6 mos. - 5 yrs.)	1.50	1.48	1.40	1.48
	38%	33%	28%	34%
Long Term (less than 5 yrs.)	2.70	2.85	2.83	2.79
	29%	22%	22%	24%

Importance of financing maturity. For this question the responses of each sized group matched the overall rankings. In sum, the shorter the maturity, the more important the type of financing. The Scheffe test and Spearman Rank Correlation Coefficient discerned no significant variation between firms of different size.

CONCLUSIONS

This study of 354 small and medium-sized Florida exporters attempted to gain insights into factors that limit the ability of these firms to export. The primary focus of the study was on the types of export financing most difficult to obtain and the types of financing most used.

The major factors that limited the companies' ability to export were the creditworthiness of the foreign buyer, opportunities in other countries, information on specific sales, price of U.S. goods and availability of export financing. The most difficult types of export financing to obtain were foreign buyer credit, unsecured loans, working capital loans, pre-export financing and "Ex-Im" guarantees. The most commonly used forms of financing were letters of credit (by a wide margin), secured loans, foreign buyer credit, unsecured loans, and documentary export collections. Finally, the companies mostly used financing of the shortest maturity, i.e. one to six months as opposed to longer terms.

Responses varied according to size of firm, although many of these differences were not statistically significant. In general, largest firms, which were on average older and had more export experience, did not view the various factors as obstacles to the same extent as did the smaller firms. Consequently, a very small percentage of the largest companies rated the various types of export financing assistance as difficult to obtain. For the smallest companies, on the other hand, many of the factors were rated important to very important, and a substantial percentage of them found most of the types of export financing assistance difficult to obtain.

Implications

Factors limiting exports. As has been reported in prior research, this study also found that information concerning export opportunities and available assistance for small exporters is not reaching these firms to the extent necessary and desired. In fact, when asked the general types of assistance that the state of Florida could provide, trade leads and information on small business assistance programs were the most frequently given responses. This is particularly true for the smallest firms. In view of this finding, it would appear that public sector providers of this type of information need to reevaluate their programs and delivery systems and make necessary adjustments in order to address the varied needs of different sized firms.

Export Financing. Two of the top five factors cited as limiting the ability to export were related to export financing. This study was able to identify the types of financing that were the most difficult to obtain and the types that were the most used. The difficulty and usage were shown to vary by firm size, with the smallest firms, not surprisingly, having the biggest problems. This suggests, again, that the efforts of the banks and other financial institutions in this regard must be reevaluated and revised with a more aggressive posture. One respondent wrote that the problem revolves around "the inexperience and poor expertise of most financial institutions, bankers, and government agencies, which usually encourage your cooperation only to let you down when the real opportunity arises. It seems that they are more interested in filling in their PR to the chagrin of the exporter."

When asked how the state of Florida could assist in this regard, the two responses given most frequently, by far, were loan guarantees for and/or direct loans to small businesses. Perhaps states, such as Florida, that are committed to increasing exports, should earnestly consider the establishment of some type of state export financing facility, as exists, for example, in California and Illinois, specifically designed to meet the needs of small and medium-sized exporters and potential exporters.

In summary, one respondent offered a novel suggestion which may be on the right track: "There should be developed a tri-party export promotion program with exporters, [foreign] importers, and the state of Florida. Each would contribute funds which would be used for advertising and promotion of Florida goods and services and to defray importer costs of visiting Florida." It need only be added that there is a definite role for the banks and other financial institutions in this program.

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